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MOHAMED, NOHA, AHMED, ALAAELDINE

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**Antecedents of Brand Equity: The Chinese Path to Building  
Brands**

**A Case-study of GEELY and BYD Automotive Brands**

Thesis Submitted to  
Durham University Business School  
DURHAM UNIVERSITY

In Partial Fulfillment of the  
Requirements for the Degree of  
Doctor of Philosophy

**Noha A. Alaa El Dine Mohamed, MBA**

**May 2014**

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## **ACKNOWLEDGMENT**

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## **ABSTRACT**

Foy many years China was flagged as the world's premier factory neglecting significant aspects such as brand equity. This study explores the antecedents of brand equity of Chinese brands. The main purpose of this study is to examine the evolution of Chinese brand equity and the impact of selective marketing mix elements and the Country of Origin as attributes preceding the creation of Chinese brand equity. A qualitative approach has been adopted in order to acquire an understanding of Chinese path to building brands. A case-study methodology was applied, with the unit of the analysis being two Chinese automotive brands: GEELY and BYD.

The researcher proposes a conceptual framework in which brand differentiators composed of selective marketing mix elements and the COO (Antecedents) are related to the dimensions of brand equity; brand awareness, perceived quality, and brand associations.

Throughout the course of study, five questions were explored. The results of the research confirmed that some of the Chinese companies are moving towards building strong brand equity with their steady steps in product quality, joint ventures and co-branding. The researcher also confirmed that Chinese Country of Origin is no longer an obstacle to building strong brand equity.

Two research questions - geographical presence and perceived value - were not supported by the cases of GEELY and BYD and were not accepted as positively affecting the brand equity of Chinese brands during the course of the study. While some literature supports this direction, the two cases understudy failed to support them. The research affirmed that certain Chinese brands are on the rise and that the strategic focus of Chinese companies recognizes the fact that brand building is the path to sustainable competitive advantage. For the purpose of triangulation and control for reliability, the accepted questions were further investigated by an external researcher.

Discussion, conclusion, recommendations, and future work will then be explored.

**KEY WORDS:**

Brand Equity, Country of Origin, Marketing Mix, Chinese Brands, Automotive Industry.

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## **LIST OF ABBREVIATIONS**

AMA: American Marketing Association

AUC: American University in Cairo

4As: Association of Accredited Advertising Agencies

B2B: Business-to-Business

B2C: Business-to-Consumer

BAIC: Beijing Auto Industry Holding

BAV: Brand Asset Valuator

BE: Brand Equity

BD: Brand Differentiation

BYD: Build Your Dream

CA: Country of Assembly

CAAM: Chinese Association of Automobile Manufacturers

CBBE: Customer Based Brand Equity

CBE: Composite Brand Extension

CD: Country of Design

CDM: Contract Design and Manufacturing

CKD: Completely-Knocked-Down

CP: Country of Parts

COO: Country of Origin

EV: Electric Vehicle

EVA: Economic Value Added

FAW: First Auto Works

FTC: Federal Trade Commission

GAC: Guangzhou Automobile Group Co.

GDP: Gross Domestic Product

GM: General Motors

HEV: Hybrid Electric Vehicle

IPO: Initial Public Offering

JIT: Just-In-Time

JMH: Jiangling Motor Holding

JV: Joint Venture

LA: Los Angeles

M&A: Mergers and Acquisitions

MIM: Machinery Industry Ministry

MN: Multinationals

MNC: Multi-national Companies

MPV: Multi Purpose Vehicle

NAFTA: North American Free Trade Agreement

NEV: New Energy Vehicle

OEM: Original Equipment Manufacturer

ODM: Original Design Manufacturer

OBM: Original Brand Manufacturer

PC: Personal Computer

PIMS: Profit Impact of Market Strategy

PHEV: Plug-In Hybrid Electric Vehicles

REEV: Range Extended Electric Vehicles

R&D: Research and Development

SAIC: Shanghai Auto Industry Corporation

SAW: Second Auto Works

SIC: Standard Industrial Classification

SKD: Semi-Knocked-Down

SOE: State Owned Enterprise

SUV: Sport Utility Vehicle

WTO: World Trade Organization

Y&R: Young & Rubicam

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## **CHAPTER ONE: INTRODUCTION**

### **1.1 An Overview**

When Lexus was launched fifteen years ago, the idea of a Japanese luxury brand that would compete head to head with Mercedes-Benz, BMW, and Cadillac seemed outrageous. Yet, the Japanese managed in just few years to position Lexus and redefine the idea of the luxury vehicle. What attributes contributed to the success of a Japanese car to play at par with high end luxury American and German cars? Lexus had managed to transform the brand from an unlikely outsider into one of the industry's leaders.

It all started in 1983 when Eiji Toyoda the Chairman of Toyota posed the question in a secret meeting; “Can we create a luxury vehicle to challenge the world's best? This question prompted Toyota to start a top-secret project, coded F1 (“Flagship One”) with an objective to produce a flagship sedan that would expand Toyota’s product line, and establish its footsteps into the premium segment. (May, Matthew E., 2006)

Lexus has become the top-selling luxury car in the US for four consecutive years. Since its first cars were launched, Lexus has earned the respect and recognition from the most refined segment of the market. “(The Lexus Story, 2004)” How did Japanese managed to develop Lexus into the American market and challenge strong brand equity players such as Mercedes, BMW, and Cadillac? Lexus is a case study that is taught in universities and is subject to a variety of studies and discussions.

The starting point and ending point were many market researches and focus groups that preceded the brand development both technically and functionally. (Dawson, Chester, 2004). Lexus extraordinary success was the result of hundreds of prototypes, and the work of more than 1,000 engineers, in addition to investment around \$1 billion, the Lexus LS 400 pioneered new horizon. “(The Lexus Story, 2004)”

Attention to product quality and performance, along with unmatched attention to service explain the brand's rapid rise combining speed, safety, comfort, elegance, dignity and beauty.

Lexus developed a dealer network that gave unprecedented attention to service and made all what it needs to build the brand.

At the beginning of building the Lexus brand, Toyota set apart the Lexus plant from the other Toyota sedan plants in order to define the new luxury segment. Lexus even has different management and operation team. "(The Lexus Story, 2004)"

Although the Lexus - the Japanese automaker's luxury brand - has been scored with huge success in the US, the name has never been used on Toyota cars in Japan nor associated with Toyota. The association of Toyota though was positive was just absent with the introduction of the Japanese car in the US market. This has paved the way for the new luxury brand to establish its own character and personality into the luxury segment. Lexus was developed to be originally launched into the US market, and it acknowledged its owners who appreciate life and rewarding experiences, as such Lexus sponsors a variety of events that indulge the senses, engage the mind, and support charitable causes. Since 1991, Toyota and Lexus have provided \$196 million to support the American education, health and human services, civic and community programs, environmental initiatives, and the arts. "(The Lexus Story, 2004)" Today, Lexus is ranked among the ten largest Japanese global brands in market value with a value of 2,556 US \$ Million. "(Japan's Best Global Brands, 2009)"

Lexus managed to build a strong brand equity that was built on both tangible and intangible attributes. Would Chinese learn from the Japanese experience, there are of course differences between the Chinese and Japanese experiences, yet building brand equity has beyond doubts some common denominators. This study is exploring the antecedents' attributes for Chinese to build strong brand equity.

Brand equity is a set of assets and liabilities linked to a brand, its name, and its symbol, which adds to, or subtracts from, the value provided to a firm and/or to a firm's customers through its products or services (Aaker, 1991). For many years, the word "brand" was not really significant in the lexicon of Chinese companies. Other different strategic approaches were what made China the world's premier factory. (Fan, 2006)

Recently, however, a paradigm shift has flourished, with new strategic imperatives allowing for more investment in building Chinese brands. Traditionally, Chinese companies had no strong reason or powerful rationale to market or brand their products and services globally. With enough domestic potential, China was content with the tremendous opportunities for business owners to grow their businesses. "(What Chinese Companies Must Do, 2012)" However, with the changes happening in the marketplace from one side and the expanding middleclass consumer segment in China, a new mindset is in place. Above all, fierce competition from other Asian countries is forcing the Chinese to change their low-cost strategy. Establishing global brands will open an array of fresh opportunities for Chinese brands to open new markets both locally and abroad.

Building Chinese global brands is both controversial and challenging because consumers still have negative perceptions of the "Made in China" label. Though many Chinese brands have excelled in high quality products and advanced production technology, the question remains, is still the Chinese Country of Origin curse lingers?

Building brand equity within Chinese context is in a way different due to the inherited legacy of the Chinese COO and the nature of the automotive industry under study. In consumer research, brand equity has been related to expenditures in the dimensions of the marketing mix (Yoo et al., 2000). In the present study the relevance of marketing mix elements along with the Country of Origin are investigated as antecedents of building Chinese brand equity.

## **1.2 Problem Definition**

Although there has been great interest in the concept of brand equity, little conceptual development or empirical research has addressed which marketing activities most support the building of brand equity. (Barwise, 1993). Researchers have focused on exploring the concept rather than its sources and development. Furthermore, Chinese Country of Origin for years reflected the country's overall strategy of competing on price and volume, however, in the past 10 years, a new era of Chinese brands seems to have been on the rise, this study is exploring the emerging change of Chinese brands and the effect of the "Made in China" along with the brand differentiators attributes represented in selective marketing mix elements as antecedents of building brand equity within Chinese context.

## **1.3 Aim and Purpose of the Study**

The aim and purpose of this study is to examine the antecedents of brand equity of Chinese brands. The study is exploratory in nature, and focuses on two Chinese cases within the automotive industry: GEELY and BYD. The automotive industry in the People's Republic of China has been the largest in the world, measured by automobile unit production, since 2008. The researcher will explore the Chinese path of building brands while focusing on the two cases under study.

## **1.4 Research Method**

### **1.4.1 Research Design**

A qualitative approach was adopted to acquire an understanding of the antecedents of building Chinese brand equity. A case-study methodology is applied and the unit of the analysis is two Chinese automotive brands, namely GEELY and BYD. Case study was selected since case study research may lead to a more informed basis for theory development (Bonoma, 1985; Eisenhardt, 1989; Yin, 1989) in a newly developing area of research. Since in a case-study one must



generalize according to a theory and because – according to (Patton, 1997) – researchers do not always have a good theory available – particularly when exploring new or cutting edge issues – it is necessary to develop a logic model or “Theory of Action”.

The Theory of Action of this study is composed of the antecedents and sources of brand equity. The antecedents of brand equity include the Country of Origin and the Brand Differentiation. Brand Differentiation is developed using selective elements of the marketing mix be it product quality, perceived value/price, distribution presence/place, along with the joint venture and co-branding; with selective iteration to fit within the context under study.

The sources of Brand Equity are composed of three attributes: Brand Awareness, Brand Perceived Quality, and Brand Association and Image.

The following represents the antecedents and sources of brand equity within Chinese context. Both antecedents and sources of brand equity constitute the conceptual framework of the study. The researcher will then present the research questions and research themes under study.

## **1.4.2 The Conceptual Framework**

### **1.4.2.1 The Antecedents of Brand Equity**

- a. Brand Differentiation (BD)
  1. Product Quality

***Definition:*** Quality in a product or service is not what the supplier puts in. It is what the customer gets out and is willing to pay for. (Drucker, 1985)

2. Geographical Presence

***Definition:*** Refers to [convenience of] the distribution channels to display or deliver the physical product or service(s) to the buyer or user. (Kotler, 2001)

### 3. Joint Ventures and Co-Branding

**Definition:** A Joint Venture is one type of strategic alliance formed by two or more corporations who agree to share ownership of a Foreign Direct Investment in order to achieve a common goal in a foreign market. (Som, 2009)

Whereas, co-branding includes marketing of any kind involving at least two distinguished brands. (Keller, 2003)

### 4. Perceived Value

**Definition:** The worth that a product or service has in the mind of the consumer. The consumer's perceived value of a good or service affects the price that he or she is willing to pay for it. (Investopedia Dictionary)

#### b. Country of Origin (COO)

**Definition:** COO is the [perceived] country of manufacture, production, or growth where an article or product comes from. (Wikipedia Definition)

#### 1.4.2.2 The Sources of Brand Equity

##### **Brand Equity**

**Definition:** The value consumers associate with a brand, as reflected in the dimensions of brand awareness, brand associations, perceived quality, brand loyalty, and other proprietary brand assets. (Aaker, 1991)

**The following three attributes constitute the Brand Equity construct.**

#### a. Brand Awareness

**Definition:** The ability of a buyer to recognize or recall that a brand is a member of certain product category. (Aaker, 1991)

b. Perceived Quality

**Definition:** perception of the overall quality or superiority of a brand relative to alternative products (Low & Lamb Jr., 2000)

c. Brand Association

**Definition:** Brand associations consist of all brand-related thoughts, feelings, perceptions, images, experiences, beliefs, attitudes and is anything linked in memory to a brand. (Kotler and Keller, 2006)

The following represents the conceptual framework of the study.

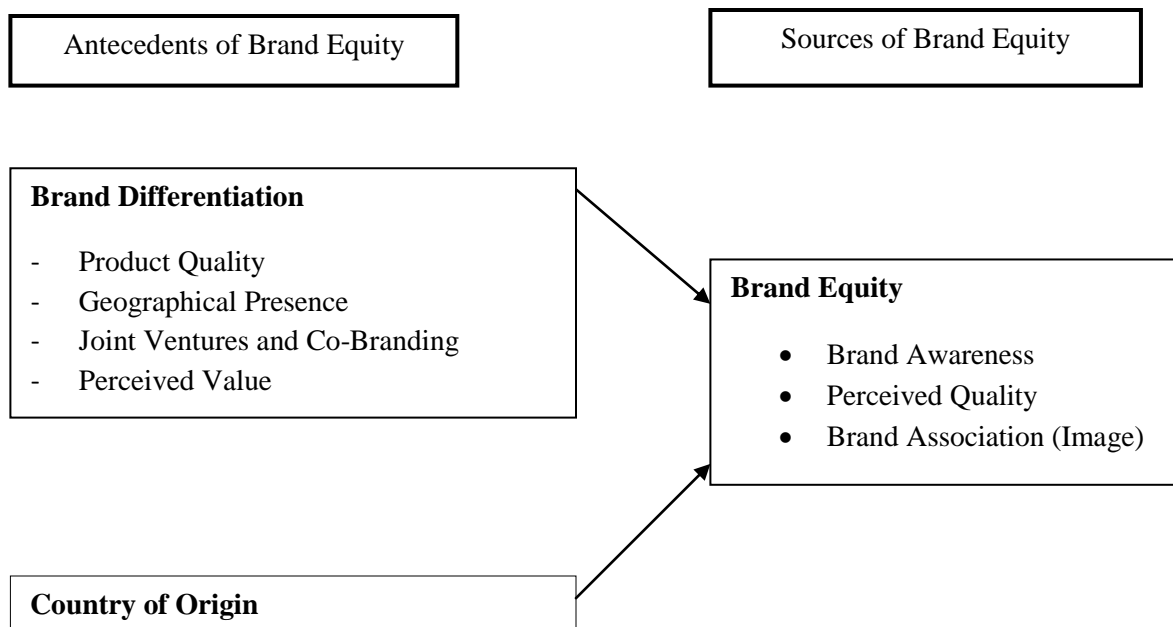


Figure 1.1: Conceptual Framework of the Study

### 1.4.3 Research Questions

- What is the impact of Chinese Country of Origin on brand equity?
- How is product quality supporting the brand equity of Chinese brands?
- How is geographical presence supporting the brand equity of Chinese brands?

- How are joint ventures and co-branding supporting the brand equity of Chinese brands?
- Is the perceived value of Chinese brands supporting the brand equity of Chinese brands?

#### 1.4.4 Research Generated Themes & Sub-Themes

**Main Theme: Chinese country of origin is no longer an obstacle to building strong brand equity**

**Sub-Themes:**

- COO and Brand Equity
- Marketing & Branding

**Main Theme: Product quality is positively affecting the brand equity of Chinese brands.**

- Product Quality
- Technology, Innovation, and Safety
- Hybrid and Green Vehicles

**Main Theme: Geographical presence is positively affecting the brand equity of Chinese brands.**

**Sub-Themes:**

- Expansion and International Presence
- Acquisition and Openness to International Markets

**Main Theme: Joint ventures and co-branding are positively affecting the brand equity of Chinese brands**

**Sub-Themes:**

- Joint Venture and Co-Branding

**Main Theme: Perceived value is positively affecting the brand equity of Chinese brands.**

**Sub-Themes:**

- Segmentation and Positioning
- Perceived Value of Branding

#### 1.5 Data Analysis

The data analysis strategy will depend on addressing each proposed theme with its subsequent sub-themes following the same concept of **Theoretical Interpretation**, which is the first and most preferred strategy (Yin, 2009). **Pattern Matching** will be used for case-study analysis.

### 1.5.1 Data Collection

To achieve triangulation the researcher chose a combination of interviews, focus groups, archives, and pre-coding that acted as a prelude for another external researcher to conduct case analysis for the accepted questions. Conducting a survey was inappropriate due to the lack of established concepts and indicators. The reason for limited observation, on the other hand, is due to the irrelevance of this tool to the research questions under study.

**Documentation and Archival Records:** For data collection purposes, the researcher depended on secondary sources of information, such as articles, annual reports, and specialized reports and documents. The dependence mainly on document analysis is due to the nature of the research questions. Since the researcher will be using themes generated theoretical strategy to analyze the data, the research questions and themes developed will be the reference for analysis; the secondary sources will constitute the main data collection method.

**Structured In-depth Interviews:** In addition to secondary data, the researcher used structured in- depth interviews as a second data collection method with two key segments: industry experts and academic professors.

**Focus Groups:** In order to add the dimension of practical experience, the researcher thought it would bring more depth to the research under study to share the conceptual model with marketing practitioners through focus groups. This assured that the conceptual model is well grounded and that both the academic and pragmatic sides are covered. Moreover, it helped in getting the best practices angle regarding the research questions under study.

### 1.5.2 Validity and Reliability

#### Internal Validity

Internal validity concerns the validity of the postulated relationships among the concepts. The main problem of internal validity as a criterion in qualitative research is that it is often not open to

scrutiny. According to Sykes (1990), the researcher can always provide a plausible account and, with careful editing, may ensure its coherence. Recognition of this problem has led to calls for better documentation of the processes of data collection, the data itself, and the interpretative contribution of the researcher.

### **External Validity**

Each case-study was analyzed separately to allow for a deep understanding of each case. A comparison of the two cases allowed for replication, which in turn achieved external validity.

### **Reliability**

For the purposes of reliability, there has been proper documentation of procedures and appropriate record keeping through the development of a case-study database. The analysis was selectively replicated to support the triangulation of the analysis and conform to the reliability aspects.

Quality analysis in the GEELY and BYD cases was achieved through (1) attending to all evidences per question and its relevant themes, (2) attending to rival interpretations, and (3) focusing on the main issue of the study.

In order to achieve reliability and external validity of the data, the researcher depended selectively on Pre-Coding through a third-party researcher to triangulate the analysis and abide with external validity measures.

## **1.6 Research Limitations and Delimitations**

Since Chinese are still finding their way and trying to establish brand equity after a long stand of negative brand association and image and very low perceived quality, the researcher founded its own questions and theory of action based on relevant antecedents of brand equity. The researcher used selective elements of the marketing mix that constitute the foundation of any marketing and brand building efforts. The researcher assumed that Chinese are currently in a transitional phase

where they are shifting from a low-price, low-quality strategy to a brand building strategy. As such the researcher is investigating the antecedents that would guide the path of Chinese strong brand equity.

The research has some *limitations* as follows:

- One limitation is related to the research design, where the researcher mainly focused on secondary research and primary research with industry experts and subject matters experts while the side of the consumer was not addressed. Since the research is exploratory in nature, the researcher chose to focus the research to have a more global overview of the industry while investigating the two cases. Specially, that the consumers view at this stage could be confusing taking the transition phase of Chinese brand building into consideration.
- The inexistence of a brand equity model adapted to the Chinese context and specifically the automotive industry. Several models were developed testing the brand equity concept, yet not within the Chinese market.

Some *delimitations* occurred to make the research more focused:

- The selection of the marketing mix elements was vital to the study, yet the researcher excluded the element of promotion because the study is exploratory and is trying to anticipate the direction of the Chinese in building their brands, rather than studying the impact of promotion which is the last phase of the marketing mix build-up. However, instead the researcher selected a more relevant element to the automotive industry to study its impact on Chinese brand equity which is co-branding and joint venture.
- The researcher also adapted the product dimension to focus only on product quality due to its relevance to the industry under study.
- The researcher also selected to focus on the geographical presence specifically from the place element of the marketing mix due to its relevance to the study.

- The dimensions of Brand Equity were limited to brand awareness, perceived quality, and brand associations (image), and excluded brand loyalty. This is because brand loyalty requires prior usage and purchase (Aaker, 1991), while the other three dimensions can be studied without usage of the product (Silva et al., 2012).
- The research was limited to the automotive industry due to the fact that the Chinese automotive industry is evolving and progressively surpassing the United States as the world's once leading producer of automobiles.
- The research focused on marketing antecedents, and the financial indicators were not included such as profits and earnings per share due to the fact that Chinese are still in a development/investment phase and looking at the profits at the present might be misleading.
- The research mainly focuses on the passenger cars line of two Chinese brands – GEELY and BYD – because these two passenger car brands are listed in the Interbrand list of the top 50 Chinese brands.
- Changes in China's vehicle industry in the post-reform period mainly stem from passenger car production, making it the fastest growing sector in recent years. Therefore, the focus of this research is on China's passenger cars.
- The industry experts' interviews were limited to Egypt as one of the main countries where Chinese automotive exports were heavily introduced during the past ten years.

### **1.7 Contribution of the Research**

The foremost theoretical contribution of this study is its significant results about the antecedents of Chinese brand equity. To date, an adequate empirical study supporting the marketing antecedents affecting brand equity building within Chinese context does not exist. Although there has been great interest in the concept of brand equity, there has been little conceptual development or empirical research studying which marketing elements most support the building



of brand equity (Barwise, 1993). This study explores product quality, perceived value, distribution intensity, and co-branding as elements of the marketing mix, and as antecedents of Chinese brand equity. This study explored the COO impact and its relation to brand equity opening new horizons and affirming the diminishing impact of the “Made in China” curse especially to the new generation. This study is tracking the significant relation between product quality and brand equity as a strong pillar in Chinese pursuit to build their brands. Furthermore, the study is proposing a new perspective to the effect of joint ventures and its relation to brand equity; an original dimension that is rarely explored. Joint Venture was always researched as a growth strategy and seldom explored in relation to brand equity. Moreover, little research investigated the effect of Co-Branding on Chinese brand equity, this study is shedding light on the importance of this relation especially within Chinese context. Though still controversial, whether Chinese brands can make it to the world of brands and successful brand building. This study is shedding light on the significant impact of certain Chinese organization and their journey towards building brand equity. Moreover, this study acts as a cautionary document for western brands seeking to preserve their long-standing brands in the face of Chinese brands.

### **1.8 Structure of the Thesis**

The thesis is organized as follows: In Chapter One the researcher presents an overview of Chinese brand building, problem definition, and the aim and purpose of the topic under study. The researcher explores the research method, shedding light on the research design, research variables, questions, before moving on to data analysis and collection. Chapter Two is a review of the relevant literature and Chapter Three is addressing the case study background. Chapter Two comprises two sections: brand building, brand equity concept and the conceptual model; and marketing mix and brand equity along with the other antecedents. Chapter Three comprises three sections: Chinese brand building; COO and its effect on brand equity; and the evolution of the

Chinese automotive industry. Chapter Four examines the research methodology, and Chapter Five examines the research analysis and findings. Chapter Six explores the discussion for each question. Chapter Seven presents the conclusion, recommendations, and future work for this study.

## **CHAPTER TWO: LITERATURE REVIEW**

The researcher is exploring the antecedents of Chinese brand equity within the automotive industry and the country of origin effect on Chinese brands. Furthermore, the researcher is investigating the impact of selective marketing mix elements and joint venture and co-branding on Chinese brand equity building. As such, the literature review will only cover the relevant topics in the following sequence.

This chapter is composed of two main sections: the brand creation and brand equity concept; and the marketing mix concept and brand equity.

### **SECTION 1: BRAND CREATION AND BRAND EQUITY**

This chapter reviews existing literature associated with brand equity. First, it presents an historical background including concepts of brand and brand building. Second, it discusses the different phases to build brand equity along with the different brand equity models and measurements revealed. Third, it presents the components of brand equity relevant to the conceptual framework of the research.

#### **2.1 An Overview**

It is generally claimed that brand names are a corporate asset with an economic value that creates value for shareholders.

Although the word “brand” has been used in literature for a long time it has no commonly agreed upon scientific definition. Over the years many shifts in terminology have affected the meaning of the word, bringing more aspects of definition to it. However, scholars agree that a brand is one of the most valuable intangible assets an organization can possess. It is very striking how a word that was originally used to differentiate and spotlight animals is currently being popularized without remembering its original meaning. Yet it is clear that the core meaning carries the same

original implication: highlighting and easily identifying an individual object amongst multiples. David Aaker (1995) wrote that a “brand is an asset of differentiating promises that links a product to its customers”.

Over time managers have discovered the value of a brand as a strategic asset and as a company’s primary source of competitive advantage. (Aaker, 1996) Today even the value of building brands is becoming more demanding and rewarding. Gabriela Salinas (2009) defines brand value as the identification of the brand’s economic (monetary) value to determine its level of brand equity. While brand equity is mainly concerned with consumer perception and quantifiable behavioural attitudes, brand value is mainly concerned with the estimation of the brand economic value.

Brand equity is an intangible asset manifested as a brand name, symbol, and promise. For many businesses the brand name and what it represents are its most important asset and impetus for competitive advantage and future earnings streams. During the past decade, a new strategic shift took place when Chinese corporations started to give a different weight and attention to brands and the importance of building brands. The focus of this research is to better understand how Chinese are moving into this new era of building brands and what are the antecedents that would support their path to building strong brand equity.

## **2.2 The Value of Building Brands**

The value of building a brand could be indicated by the money a firm has paid for acquiring another firm. In packaged consumer goods, where building brands is a virtue, strong brand names reflect the process of developing, managing, building, and retaining the brand. Procter and Gamble paid 2.6 times Richardson-Vicks’ book value; Nabisco sold for 3.2 times book value; and General Foods sold for 3.5 times book value. (Business Week, 1995) The everlasting nature of brands is illustrated by brand names such as Coca-Cola, Phillip Morris, Levi’s, McDonald’s,

Nabisco, Kellogg, Kodak, Del Monte, Wrigley, Gillette, Campbell, Lipton, and Goodyear – all among the brand leaders in the USA in both 1925 and 1985. (Financial World, 1996; Wurster, 1987)

A traditional and long-established definition of a brand is “the name, associated with one or more items in the product line that is used to identify the source of character of the item(s).” (Kotler, 2000) Moreover, the American Marketing Association’s (AMA) definition of a brand is “a name, term, sign, symbol, or design, or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors.” (p. 404) Regarding this view Keller (2003) wrote: “technically speaking, then, whenever a marketer creates a new name, logo, or symbol for a new product, he or she has created a brand.” (p. 3) He recognized, however, that brands at present are much more than just an identifier.

Today, the word “brand” is used to manifest a promise, in addition to the symbol, and brand name. Furthermore, the term “brand” has been widely associated with other imperative terms, such as brand equity, brand identity, brand personality, brand value, and brand creation. Some of these terms are of particular interest to the researcher in this study. Namely: brand equity, brand identity, and brand creation.

Firstly: many scholars and professionals have attempted to define the term brand equity and deduce its elements. Aaker (1996) wrote: "Brand equity is a set of brand assets and liabilities linked to a brand, its name and symbol that add to or subtract from the value provided by a product or service to a firm and/or to that firm’s customers. For assets or liabilities to underlie brand equity they must be linked to the name and/or symbol of the brand."

Aaker (1991) explained that a brand’s assets and liabilities add to its equity and may be grouped into five categories: brand loyalty, brand awareness, perceived quality, brand association, and

other proprietary assets. Such a categorization is consistent with Keller (1993). Aaker also suggested that brand equity provides value to a company through the effectiveness of marketing programs, brand loyalty, price premium, etc. It also provides value to the customer through enhanced information processing, purchase decision confidence, and increased use satisfaction.

The significance of understanding brand equity from the customer's perspective was explained by Keller (1993): "Though the eventual goal of any marketing program is to increase sales, it is first necessary to establish knowledge structures for the brand so that consumers respond favourably to marketing activities for the brand." Keller further stated: "While positive customer-based brand equity can lead to greater revenue, lower costs and higher profit, it has direct implications for the firm's ability to command higher price, customers' willingness to seek out new distribution channels, the effectiveness of marketing communications, and the success of brand extensions and licensing opportunities."

In this study, the researcher focused on three dimensions that comprise the construct of brand equity; brand awareness, brand perceived quality, and brand association. The brand loyalty dimension was excluded because loyalty requires actual purchase and would call for a completely different method of research. Also excluded was the dimension of other proprietary assets – which consists of patents, trademarks, and channel relationships – since this is not relevant to the research context.

*However, it is important to highlight the significant link between brand building and classical marketing.*

### **2.3 The First Stages of Classical Marketing**

Before the significant value of brands was discovered, brands were originally treated as part of the product. (Urde, 1999, p. 119) Kotler (2000) mentions branding as "a major issue in product

strategy.” (p. 404) Kapferer (1997) pointed out that “the brand is a sign –therefore external- whose function is to disclose the hidden qualities of the product which are inaccessible to contact.” (p. 28) “The challenge today is to create a strong and distinctive image.” (Kohli and Thakor, 1997, p. 208)

### **Stage 1: Unbranded Goods**

Typically this stage is more relevant to developing countries and is usually sidestepped in developed countries. In the instances of commodity goods – such as sugar, cement, rice, etc. – although consumers do not pay much attention to brand differentiators, they are still at work to some extent. This is apparent in an example from the former USSR. Although Russian consumers may not have the advantage of brand names and identity to facilitate the selection process between different tyres, they learn that the codes stamped on the tyres indicate a specific factory and, by experience, search for these special codes. This period usually occurs when demand exceeds supply, or when the government’s central policies interfere to decide which choices should be allowed. The typical attitude is that organizations are not much concerned with branding since the manufacturer is mainly concerned with selling their goods and the consumer is focused on acquiring goods from the limited choices available. However, in western economies, the industrial revolution put an end to this because supply began to exceed demand and producers started to learn that they were obliged to sell their goods to consumers who had multiple choices. At this stage the consumer’s network primarily consists of a node that classifies the whole product category and not a specific product. For instance, all soap may be used for washing. Nowadays, most market economies have gone beyond this stage, but it is covered here for purpose of comprehensiveness and differentiation of the original efforts of management to differentiate their brands, which will be better described in the following stage.

With the start of the retailing industry in the late 1970s, retailers in the US and much of Europe introduced generic goods selected to eliminate all frills such as services, advertising, branding and so on. This was received with scepticism and consumers stopped purchasing unbranded generic goods. This was the prelude for the introduction of the second stage. Figure 2.1 presents the different stages of classical marketing.

Stage of Branding	Time	Type of Value
Stage 6 Brand as policy		
Stage 5 Brand as company		Terminal
Stage 4 Brand as icon		Symbolic
Stage 3 Brand as personality		
Stage 2 Brand as reference		
Stage 1 Unbranded	Time = 0	Instrumental

**Figure 2.1: The First Stages of Classical Marketing**

**Stage 2: Brands as Reference**

In this stage, more tendencies towards differentiation started to appeal to managers, with the stress on the functional benefits which the distinctive brand name distinguished from other brands. (Copeland, 1923; Jones, 1986; Brown, 1992) This brought several benefits. The brand name could be protected legally against imitation through trademark registration, which allowed clear source of ownership. (Fogg, 1998)

The definition of the American Marketing Association in the 1960s that a brand is "a term, symbol or design.... intended to identify the goods or services of one seller...and to differentiate them from those of competitors". Remnants of this perception of the function of brands still dominate marketing textbooks; such as Kotler and Armstrong (1996).

With the beginning of a product's lifecycle differentiation is typically achieved by pressing the functional product attributes, since consumers are still learning about the product and competition is tough. Consequently companies mainly seek to differentiate in order to establish a competitive advantage with the ultimate goal of achieving superiority for the brand and lead to brand preference. Here the secondary demand stimulation begins. Consumers can perfect their brand



choice selection since they are now capable of identifying brands and distinguishing between them. (Hoyer and Brown, 1990) Typically the identification of a brand requires a consumer to be aware of the brand name, while differentiation requires the ability of a consumer to acquire more knowledge about the brand. Such knowledge is transferred through establishment of the product's functional attributes or quality, so the consumer can rapidly categorize the brand in their mental sets. (Cohen and Basu, 1987) specifically, consistent quality is a key to successful branding (Doyle, 1989). A variety of authors maintain that the brand is a guarantee to the potential customer (de Chernatony, 1989; Low and Fullerton, 1994; Irons, 1996).

One of the reasons Chinese brands are slow to acquire brand recognition and preference is due in part to fluctuations in quality and inconsistent quality attributes.

In the late nineteenth and early twentieth century consistent quality was an important brand determinant because the quality of products might be low or inconsistent. Government controls on goods and policies governing industries had not yet been introduced. By the late twentieth century, however, consumers had started to expect quality and take it for granted, with each consumer able to choose the quality level that fitted their needs and budgets.

The determinant attributes (Myers and Alpert, 1968) of today's consumers are quite different. Brand attributes are not now exclusively function-related; they could be style, colour, or features meeting an individual's personal social goals.

In this stage consumers are developing multiple nodes to the product category in memory and extending the network connected with each brand. (Cohen and Basu, 1987; Bousch, 1993) Today, consumers primarily assess brands for their utilitarian value. Utilitarian values are described by Csikszentmihalyi & Rochberg-Halton as instrumental since they allow consumers to feel satisfied from owning or using the object, as illustrated in Figure 2.3.

One interpretation of brands is that they are values in consumers' minds. (Southgate, 1994) These are not solely functional values. (Sheth, Newman and Gross, 1991)

Studies by Jacoby et al. (1971; 1977) suggest that consumers faced with selection decisions simply find the brand name the most useful piece of information; rather than, for instance, the price or the product attribute information. Consumers tend to associate with the brand name since it facilitates their choice selection instantly, efficiently and on the basis of relevant information. (de Chernatony and McWilliam, 1989)

### **Stage 3: Brand as Personality**

As stated by McEnally, and de Chernatony (1999), in this stage consumers start to find differentiation on rational and functional attributes difficult and it no longer supports their decision choice; so marketers start to support their brands by giving them personalities.

One example is Ivory soap. Ivory soap developed the caring mother personality and started to indulge emotions in the consumer mindset. Stage three introduces the social emotional bond as a new dimension to support the consumer in their choice. This stage brings the brand and consumer closer as the brand personality starts to associate with consumers' personalities. Consumers begin to be more likely to affiliate with brands possessing desirable and distinctive personalities. Products and brands are employed by cultures to express cultural contexts and meanings. As such, individuals can be categorized on the basis of brands. However, when brands cross cultures it can cause confusion, because individuals in another culture may not value it in the same way as those in the original culture. Accordingly, these brand values need to be consistently communicated within each group and each culture.

#### **Stage 4: Brand as Icon**

The phrase “brand as icon” means that the brand is "owned by consumers". Today, consumer knowledge of brands is extensive and consumers use it to reflect their own identities. The most famous example is the iconic cowboy image of Marlboro; recognized worldwide and embodying certain values, such as strength and ruggedness. This cowboy is actually the symbol of a set of values well established in the consumers’ mind. The more associations and values a brand has, the more it empowers the iconic distinctions of the brand. (McEnally, de Chernatony, 1999)

#### **Stage 5: Brand as Company**

This stage is characterized by the postmodern marketing era. Here brand identity interacts with the company identity and the two become one. All stakeholders must perceive the brand (company) in the same image in the media and all other contact points. Communication flows in both directions – from the company to the consumer and vice versa – and communication must be integrated and consistent throughout all operations.

In this stage, consumers become more involved in the brand creation process. Some clear examples are the use of ATM machines and stores such as IKEA. For instance, consumers are highly involved when purchasing from IKEA; they choose from modular units the shape and size they need, they take responsibility for transporting the products, and they assemble them themselves. This kind of interaction strengthens the relationship and creates strong ties between the company and the consumer. (McEnally, de Chernatony, 1999)

#### **Stage 6: Brand as Policy**

Brand as policy reflects a new aspect of a company and its brand that relates to ethical, social, and political causes. Examples of this stage are The Body Shop, and Benetton. However, this stage is a bit tricky and could be risky, because consumers will usually commit to the brand because they

support the cause chosen by the brand. The primary risk is isolating consumers who do not like the firm's values and position. While brand values in stages 1 to 4 are instrumental in helping consumers attain certain ends, brand values in stages 5 and 6 could change, since they demonstrate terminal values which are actually the end result the consumers reach for. Examples of terminal values supplied by Rokeach (1973) are peace and equality, as illustrated in Figure 2.3.

In Kapferer's (1997) conceptual model, the brand image is an evolutionary process. He points out that brands have a physique, personality, culture, relationship, and are a reflection of the consumer's self image. Brands cannot choose to enter a specific stage; they have to go through the six stages of brand evolution. When a brand category is well established, new brands can enter the market at any stage, as long as other brands have led the way with a well-grounded foundation to support the understanding of the new brand. However, a new brand cannot be established without going through the stages that already established brands have gone through. The gap between the stages will place a burden on the consumers' acquisition of knowledge without the proper introduction of the necessary information, as illustrated in Figure 2.2.

The last two stages represent the future for brands. They are not yet well understood. Research is still needed to clarify the managerial challenges and rewards at these stages.

While the previous section explored the stages of classical marketing and brand building, the following will represent the consumer effort throughout the different stages.

**Illustration of Consumer Process**

**A. Consumer Effort: Learning Process**

					Commitment
				Interactive Value Creation	
			Adoption of Brand		
		Knowledge			
	Recognition/Interest				
Basic Product Knowledge					

**Figure 2.2: Illustration of Consumer Process over Time**  
*Shading indicates that learning builds over time in a product category.*

**B. Consumer Effort: Valuing Process**

					Self-Actualization
				Relationship	
			Self Identity		
		Self-Expression			
	Differentiation/Consistency/Quality				
Utilitarian					

**Figure 2.3: Symbolic Terminal – Rokeach - Instrumental – Csikszentmihalyi & Rochberg-Halton**  
*Shading indicates that brands can be associated with higher level values as branding efforts move towards Stage 6.*

Recently, de Chernatony and Dall'Olmo Riley (1998a) have published a comprehensive content analysis of more than one hundred articles from trade as well as from academic journals, presenting a wide perspective of the range of definitions used for brands. They recognized twelve main brand elements which clearly reflect the wide range of definitions of the "brand" in the literature. These brand elements consider brands as 1) legal instrument; 2) logo; 3) company; 4) shorthand; 5) risk reducer; 6) identity system, 7) image in consumers' minds; 8) value system; 9) personality; 10) relationship; 11) adding value; and 12) evolving entity.

Those twelve brand elements are not totally mutually exclusive, yet they signify a classification of the most important elements of brands in the marketing literature. Each of the twelve brand elements either approaches the brand from a company perspective or from a consumer perspective or both in determining the antecedents and the consequences of the brand. As such, the company's activities and consumers' perceptions materialize as the two key boundaries of the brand. The brand exists into a continuous process whereby the values and expectations instilled in the brand are set and endorsed by the company and formulated and redefined by the consumers. (de Chernatony, Dall'Olmo Riley, 1998a)

It is worth noting that Chinese brands are yet to enter the evolutionary process of building their brands. They are still trying to establish the basic foundation to support growing their brands that is why this research is shedding lights on the antecedents of the Chinese brand equity and their path to build strong brands. The product consistent quality, positive associations, and brand personality and values are an integral part of the process of brand building and development.

## **2.4 Brand Building Models**

In the following section the researcher will explore some of the brand building models originated to conceptualize the process. This section will lead to the attributes used in this study.

### **2.4.1 Kapferer Brand Building Model**

Kapferer (1997) differentiated between two main eras of branding. The first one was before the 1980s, when producers were trying to sell their production capacity and consumers simply wanted chocolate or pasta; not a particular manufacturer's type of chocolate or pasta. The second was after the 1980s, when producers were trying to acquire a place in the mindset of the consumer and consumers were seeking a distinctive brand, such as KitKat or Buitoni.

Kapferer (1997) highlighted that brands serve eight functions, as illustrated in Table 2.1. These functions are composed of three categories. The first two are mainly functional and are concerned with the essence of the brand to support its recognition. The next three support reducing the perceived risk. The last three are concerned with the pleasure side of the brand. He added that the value of a brand comes from its ability to gain an exclusive distinctive meaning in the minds of the consumers. As such brand building should focus on building brand value.

### The Functions of the Brand for the Consumer

Function	Consumer benefit
Identification	To be clearly seen, to make sense of the offer, to quickly identify the sought-after products.
Practicality	To allow savings of time and energy through identical repurchasing and loyalty.
Guarantee	To be sure of finding the same quality no matter where or when you buy the product or service.
Optimization	To be sure of buying the best product in its category, the best performer for a particular purpose.
Characterization	To have confirmation of your self-image or the image that you present to others.
Continuity	Satisfaction brought about through familiarity and intimacy with the brand that you have been consuming for years.
Hedonistic	Satisfaction linked to the attractiveness of the brand, to its logo, to its communication.
Ethical	Satisfaction linked to the responsible behavior of the brand in its relationship towards society.

Adapted from Kapferer (1997)

**Table 2.1: The Functions of the Brand for the Consumer – Source: Adapted from Kapferer (1997)**

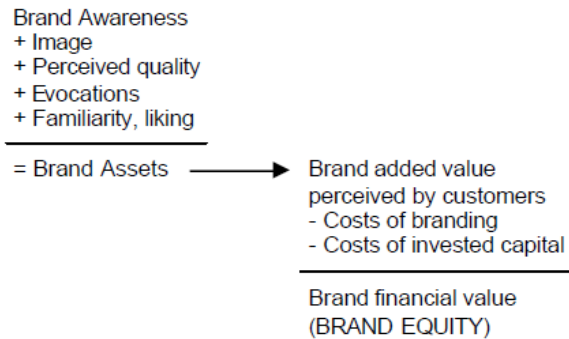
According to Doyle: “Brands fail to achieve their value-creating potential when managers pursue strategies that are not oriented to maximizing the shareholder value.” (Doyle, 2001a) Kapferer’s also states that brand value is monetary and includes intangible assets. He says that four factors combine in the mind of the consumer to establish the perceived value of the brand:

- brand awareness
- the level of perceived quality compared to competitors
- the level of confidence, of significance, of empathy, of liking
- and the richness and attractiveness of the images conjured up by the brand

He illustrated the relationships between the different concepts of brand analysis, as in Figure 2.4.



### From Brand Assets to Brand Equity



**Figure 2.4: The Relationships Between the Different Concepts of Brand Analysis**

#### **2.4.2 Brand Orientation**

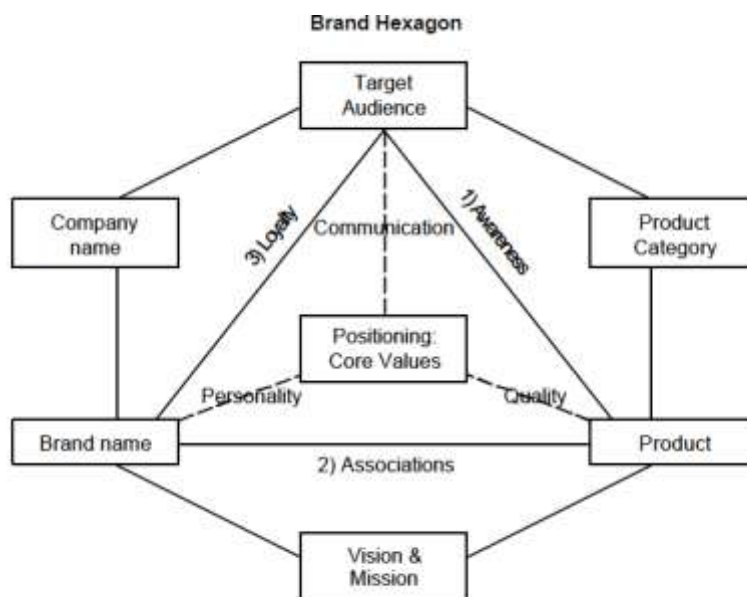
Urde (1999) portrays brand orientation as an additional brand building model that focuses on brands as strategic resources. “Brand Orientation is an approach in which the processes of the organization revolve around the creation, development, and protection of brand identity in an ongoing interaction with target customers with the aim of achieving lasting competitive advantages in the form of brands.”

In Urde’s opinion, brand orientation focuses on developing a brand while focusing on the building of a strong identity that consumers will identify with, and that is essentially associated with the consumers’ wants and needs. Following this logic, “the wants and needs of customers are not ignored, but they are not allowed to unilaterally steer the development of the brand and determine its identity.”

According to the brand orientation model, “the starting point for a process of brand building is to first create a clear understanding of the internal brand identity. The brand then becomes a strategic platform that provides the framework for the satisfaction of customers’ wants and needs.” (Urde, 1999) As such, the starting point in the brand building process would be the brand mission.

Urde's Brand Hexagon (1999) – illustrated in Figure 2.5 – integrates brand equity and brand identity with a company's direction, strategy, and identity.

The right side of the model exposes the reference function, i.e. product category and product, which are examined rationally; whereas the left side of the model reveals the emotional function, i.e. corporate and brand name, which are evaluated emotionally. He says that a brand is experienced in its entirety; meaning that a brand is explored both emotionally and rationally. The lower part of the model – mission and vision – reflects the company's purpose towards the brand; while the upper part reflects the way that target customers understand the brand. At the middle of the model lies the core process of brand meaning creation, which comprises the positioning and core values.



Urde 1999

**Figure 2.5: Urde's Brand Hexagon**

In summary: "In a brand-oriented organization, the objective is – within the framework of the brand – to create value and meaning. The brand is a strategic platform for interplay with the target

group and thus is not limited to being an unconditional response to what at any moment is demanded by customers.” (Urde, 1999)

Moreover, in a later article, Urde (2003) revealed that the brand building process is composed of two-parts: internal and external. The internal process concerns how the organization articulates the brand and how they will live the brand. The external process concerns how the consumer will perceive the brand, with clear objectives of creating value and forming relationships with the customer.

Urde’s model employs the brand equity dimensions as expressed by Aaker by distinguishing brand awareness, brand association and brand loyalty. It also presumes that product quality and brand identity are significant elements of brand building.

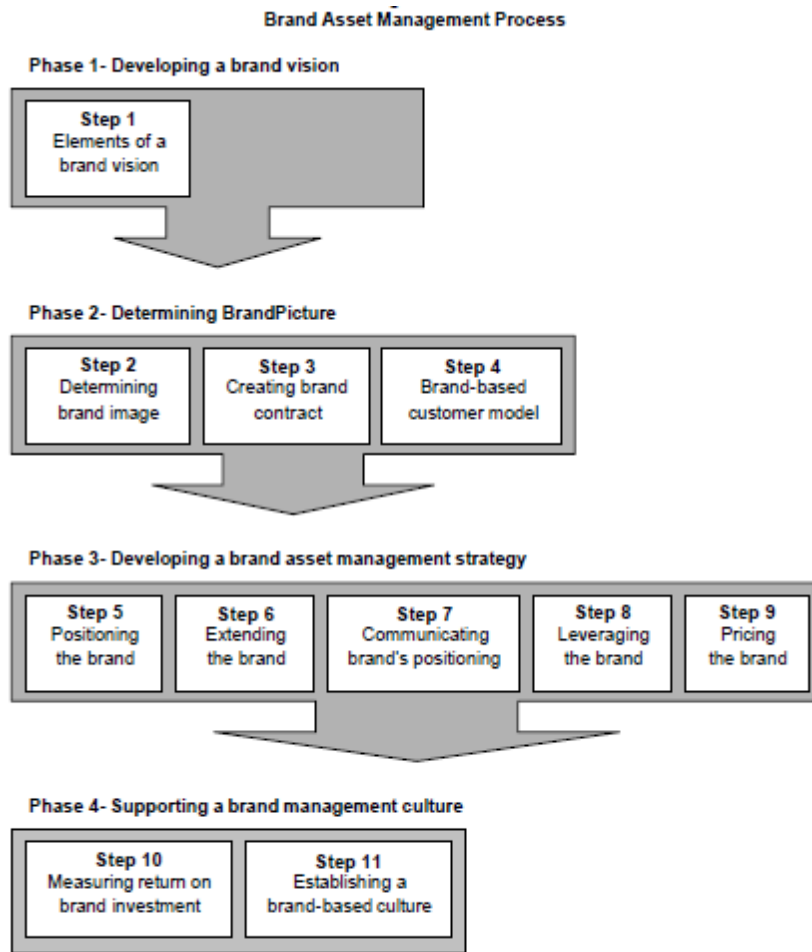
### **2.4.3 Brand Asset Management**

Another brand building model is that of Davis (2002) who argued that brands along with human capital are the most valuable assets an organization can have. “There is growing support for viewing and managing the brand as an asset and thus having the brand drive every strategic and investment decision.” (Davis and Dunn, 2002). This notion is relevant due to the fact that today management looks at a brand strategy as responsible for increasing customer loyalty, differentiation from the competition, and establishing market leadership. (Davis and Dunn, 2002) “Brand management has to report all the way to the top of the organization and has to involve every functional area.” (Davis, 2002) Davis defines Brand Asset Management as “a balanced investment approach for building the meaning of the brand, communicating it internally and externally, and leveraging it to increase brand profitability, brand asset value, and brand returns over time.” Some of the changes from traditional brand management to this new model are highlighted in Figure 2.6.

<u><b>Traditional Brand Management</b></u>		<u><b>Brand Asset Management Strategy</b></u>
Brand management	→	Brand asset management strategy
Brand managers	→	Brand champions and ambassadors
Retention	→	Deep loyalty
One-time transactions	→	Lifetime relationships
Customer satisfaction	→	Customer commitment
Product-driven revenues	→	Brand-driven revenues
Three-month focus	→	Three-year focus
Market share gains	→	Stock price gains
Marketing manages the brand	→	All functional areas manage the brand
Awareness and recall metrics	→	Sophisticated brand metrics
Brand is driven internally	→	Brand is driven externally

Davis 2002

**Figure 2.6: The Shift from Traditional Brand Asset Management**



Davis 2002

**Figure 2.7: The Brand Asset Management Process**

The Brand Asset Management process, as shown in Figure 2.7, contains four phases and eleven steps. The first phase is to develop a brand vision, with a clear objective to align the branding efforts with the organizational goals.

The second phase is to determine the company’s “Brand Picture” by understanding how the consumer perceives its brand as well its competitors’ brands. This phase is composed of three steps: determining the brand’s image, creating the brand’s contract – a list of the customer’s perceptions of all the current promises the brand makes – and crafting a brand-based customer

model, which facilitate how consumers act and think, and how and why they take purchase decisions.

The third phase is to develop a brand asset management strategy in order to set the foundation of the brand. This consists of five steps: positioning the brand, extending the brand, communicating the brand's positioning, leveraging the brand, and pricing the brand. Finally, the fourth phase supports a brand asset management culture and consists of two steps: creating a measure of the return on brand investment, and establishing a brand-based culture.

## **2.5 The Brand Equity Concept**

The actual term brand equity began to be used universally by the US advertising practitioners in the early 1980s. (Barwise, 1993) Brand equity is one of the most substantial concepts in brand management, as well as in business practice and academic research. (Kim et al., 2006)

Significant academic contributors to the concept of brand equity throughout the 1990s include (Leuthesser, 1988), (Farquhar, 1989), (Aaker, 1991), (Srivastava and Shocker, 1991), (Kapferer, 1992), and (Keller, 1993, 1998). However, a universally accepted concept of brand equity content and meaning (Vazquez et al., 2002, Keller, 2003) and measure (Washburn, 2002) has not been forthcoming. Today, almost all conceptualizations of brand equity agree that the phenomenon involves the value added to a product by consumers' associations and perceptions of a particular brand name. (Winters, 1991, Chaudhuri, 1995)

Early researches focused on measuring a brand's equity by employing financial techniques. (Farquhar et al., 1991, Simon & Sullivan, 1990, Swait et al., 1993, Kapferer, 1997) However, more recently, brand equity has been commonly defined within customer-based contexts (Keller, 1993) and has been extended to include effects on brand preferences, purchase intent (Cobb-Walgren et al., 1995, Van Osselaer, & Alba, 2000), and brand alliances (Rao et al., 1994).

Despite an increasing amount of research a commonly accepted measure for brand equity has still not been reached. The brand equity concept has been referred to frequently in the previously analyzed models. The earliest definition of brand equity was that of Farquhar (1989): “the ‘added value’ with which a given brand endows a product” (p. 24). Other definitions include that of Lassar, Mittal, and Sharma (1995). Brand equity has been examined from a financial perspective (Farquhar, Han, and Ijiri, 1991; Simon and Sullivan, 1993; Kapferer, 1997, Doyle, 2001b), and from a customer-based perspective (Keller, 1993; Shocker, Srivastava, and Rueckert, 1994; Chen, 2001).

Brand equity contains various definitions in literature (Irmscher, 1993) due to it being a vague and subjective concept (de Chernatony and Riley, 1997).

However, despite the various definitions of brand equity, literature seems coherent in the view that brand equity evolves through one’s interactions with a brand that lead to an individual developing cognitions and feeling toward the brand (Berthon, Holbrook, and Hulbert, 2003), which lead to an individual perceiving the branded product as having value for themselves (Erdem, 1998).

Table 2.2 represents the most common descriptions of brand equity within relevant studies.

<b>Study</b>	<b>Description of the Brand Equity Concept</b>
The Marketing Science Institute Leuthesser (1988)	The set of associations and behaviours on the part of the brand’s consumers, channel members, and parent corporation that permits the brand to earn greater volume or greater margins than it would without the brand name, and that gives the brand a strong, sustainable and differentiated advantage over competitors.
Aaker (1991)	The value consumers associate with a brand, as reflected in the dimensions of brand awareness, brand associations, perceived quality, brand loyalty and other proprietary brand assets.
Swait et al (1993)	The consumer’s implicit valuation of the brand in a market with differentiated brands relative to a market with no brand differentiation. Brands act as a signal or cue regarding the nature of product and service quality, and reliability and image/status.
Kamakura & Russell 1993	Customer-based brand equity occurs when the consumer is familiar with the brand and holds some favourable, strong, and unique brand

(Lassar et al.1995)	associations in the memory.
Keller (1993)	The differential effect of brand knowledge on consumer response to the marketing of the brand. Brand knowledge is the full set of brand associations linked to the brand in long-term consumer memory.
Lassar et al.(1995)	The consumers' perception of the overall superiority of a product carrying that brand name when compared to other brands. Five perceptual dimension of brand equity include performance, social image, value, trustworthiness, and attachment.
Aaker (1996)	Brand equity is: i. Loyalty (brand's real or potential price premium); ii. Loyalty (customer satisfaction based); iii. Perceived comparative quality; iv. Perceived brand leadership; v. Perceived brand value (brand's functional benefits); vi. Brand personality; vii. Consumers' perception of organization (trusted, admired or credible); viii. Perceived differentiation to competing brands; ix. Brand awareness (recognition and recall); x. Market position (market share), prices, and distribution coverage.

**Table 2.2: Common Descriptions of Brand Equity**

Both financial and customer viewpoints were articulated where the financial side reflects the value of the brand to the firm. The customer side reflects the value of the brand to the customer, which mainly relates to marketing decision made in context. (Kim, Kim, and An, 2003) Capon et al. (1994) claimed that there are two categories of brand equity: Organizational Brand Equity and Customer Brand Equity. He stated that when addressing organizational brand equity more emphasis on financial values – such as potential earnings, market value, and replacement costs – describe the concept. When addressing customer brand equity the emphasis is on customer-based perceived quality, and preference and /or satisfaction.

Brand equity has also been defined as “the enhancement in the perceived utility and desirability that a brand name confers on a product.” (Lassar, Mittal and Sharma, 1995) The higher a brand's equity the more it possesses a competitive advantage that helps it increase customer demand, extend sub-brands, increase effective communications, enhance trade leverage, boost premium margins, and make it less vulnerable to competition. (Bendixen, Bukasa, and Abratt, 2003) Higher brand equity will normally lead to better brand performance from both financial and



customer perspectives. Brand equity is considered to be a source of competitive advantage by many firms. (Chen and Tseng, 2010)

Brand Equity is seen as a significant concept since it helps a firm achieve more predictable sales (Aaker, 1992), increased profits (Keller, 2003), improved market capitalization value (Lassar, Mittal, and Sharma, 1995), and competitive advantage (Kocak, Abimbola, and Ozer, 2007).

Historically, brand equity as a marketing tool is about almost 120 years old (Murphy, Raffa and Mizerski, 2003). The concept of brand equity has been largely studied and in general refers to the value added to a product given by its brand name (Farquhar, 1989).

Research interest in brand equity and branding has been a significant area of research in the marketing field judged by the valuable number of articles published during the 80s and 90s and remained to be powerful with new insights (Winters, 1991, Aaker, 1991, Leuthesser, 1988, Pitta and Katsanis, 1995, Keller, 1993, Alden, Steenkamp and Batra, 1999, Ambler, 1992) (Mayer, Davis and Schoorman, 1995, Ambler, 1992, Low and Lamb, 2000, Mackay Maio, 2001).

Its importance occurs since companies became aware that exploiting on one of the most important assets they own, the brand, may support them in achieving longer term growth objectives, in a more profitable way (Davis, 2000). This is in fact, what Chinese companies started to recognize by directing their strategic focus on building strong brands.

## **2.6 Brand Equity Approaches**

Marketers and researchers employ different approaches while studying brand equity. (Kotler and Keller, 2006) These various approaches can be categorized into three main perspectives: customer-based perspective, financial perspective, and combined perspective. (Keller, 1993)

The relevance of brand equity brought a real challenge for scholars and practitioners with the pressing need to develop measures of brand equity (Washburn and Plank, 2002). Three research

approaches to measure brand equity have been suggested. The first focuses on the financial value of the brand in the marketplace (Morris, 1996). The second approach involves the perception of consumers associated to a brand name and the value added of a product or service normally conceptualized as consumer-based brand equity (Keller, 1993, Yang and Jun, 2002, Washburn and Plank, 2002, Aaker, 1991). The third approach is a combination of the two approaches. These approaches are explored in the following section:

### **2.6.1 Financial Perspective of Brand Equity**

Since the financial perspective is not of direct relevance to this research the following section will only cover it briefly, with more attention being paid to the customer perspective.

Financial value-based techniques extract the brand equity value from the value of the firm's other assets. (Kim, Kim, and An, 2003) Simon and Sullivan (1993) define brand equity as "the incremental cash flows which accrue to branded products over and above the cash flows which would result from the sale of unbranded products." In this approach, the authors calculate a firm's brand equity by obtaining financial market estimates from brand-related profits. Here the financial market value of a firm is considered to be the base, and they extract the firm's brand equity from the value of the firm's other tangible and intangible assets, which results in an estimate rooted in the firm's future cash flows.

The most familiar financial approach focuses on movement in stock prices to depict the dynamic nature of brand equity, assuming that the stock market reflects future prospects for brands by adjusting the price of firms (Simon and Sullivan, 1993).

Simon and Sullivan (1993) divide the value of a firm's securities into tangible and intangible assets, and then separate brand equity from the other intangible assets. This technique utilizes the financial market value of the firm as a basis for valuing brand equity based on two different approaches, the macro and micro. The macro approach is based on four firm-level estimates of

brand equity: 1) current and previous advertising expenditures, 2) age of the brand, 3) order of entry and 4) current/past advertising share. These estimates allow a firm to benchmark the effectiveness of its marketing policies to others within the same industry. The micro approach, measures the reaction of brand equity to major marketing decisions made by the firm or competitors. The key benefit of this approach is that it uses standardized market-based measures, which open the door for comparisons over time and across companies, therefore, it results in estimating the firm's future cash flows.

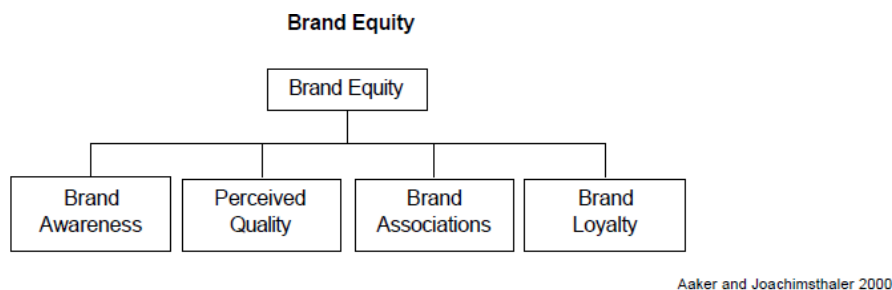
Similarly, Doyle (2001b) claims that brand equity is indicated by the ability of brands to create value by leveraging growth and augmenting prices. In other words, brands operate as an important driver of cash flow.

### **2.6.2 Customer Perspective of Brand Equity**

Brand equity as a concept has been developed over the last decade. (Aaker, 1991; Keller, 1998) Aaker (1996a) has also synthesized some contemporary thinking about marketing and depicted a comprehensive yet prudent set of factors that contribute to the development of brand equity. He has reflected that brand loyalty is one of the main components of brand equity. Furthermore, the powerful effects of brand recognition on brand choice and market share are comprehensively regarded in marketing literature. This is why Aaker regards the concept of brand awareness as a second component of brand equity. In their findings about the profit impact of market strategy (PIMS), Aaker, Buzzell and Gate (1987) highlight perceived quality as another significant component of brand equity. Other proprietary brand assets – such as patents, trademarks, and established channel relationships – represent the final component of brand equity. Scholars, including Shocker (1993), have stated that the above components are accepted largely on the basis of their face validity, yet little literature has discussed the relative importance of these components and their interrelationships. Yet the many alternatives to these components are rarely

discussed. This research is trying to examine the antecedents of brand equity represented in selective marketing mix elements and the COO from one side and the creation of brand equity in Chinese brands namely brand awareness, perceived quality and brand association from the other side.

According to Lassar, Mittal and Sharma (1995), five dimensions constitute brand equity: performance, value, social image, trustworthiness, and commitment. Aaker and Joachimsthaler (2000) define brand equity as brand assets linked to a brand's name and symbol that add to, or subtract from, a product or service. According to them, these assets, shown in Figure 2.8, can be classified in four dimensions: brand awareness, perceived quality, brand associations, and brand loyalty.



**Figure 2.8: Brand Equity as Brand Assets**

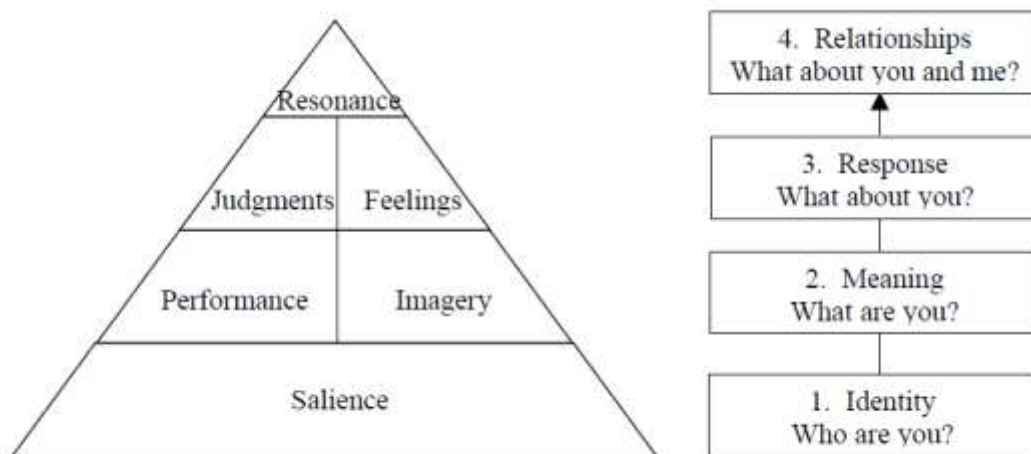
These dimensions have been widely used and acknowledged by many researchers: Keller, 1993; Motameni and Shahrokhi, 1998; Yoo and Donthu, 2001; Bendixen, Bukasa, and Abratt, 2003; Kim, Kim, and An, 2003. Brand awareness influences perceptions and taste:

“People like the familiar and are prepared to ascribe all sorts of good attitudes to items that are familiar to them.” (Aaker and Joachimsthaler, 2000) Perceived quality affects brand associations and impacts brand profitability. Brand associations are anything that links the consumer to the brand, including “user imagery, product attributes, organizational associations, brand personality, and symbols.” (p. 17) “Brand loyalty is at the core of a brand's value. Whenever brand equity is

mentioned, it directly relates to the incremental value a brand name brings to a product.” (Srivastava and Shocker, 1991)

### ***Customer-based Brand Equity (CBBE) Pyramid***

A major contribution to branding theory was made by Kevin Keller (1993; 2001; 2003) with the introduction of the concept of customer-based brand equity and the brand hierarchy as illustrated in Figure 2.9 (Keller, 2003). Keller (1993) defines the term customer-based brand equity as “the differential effect of brand knowledge on consumer response to the marketing of the brand”.

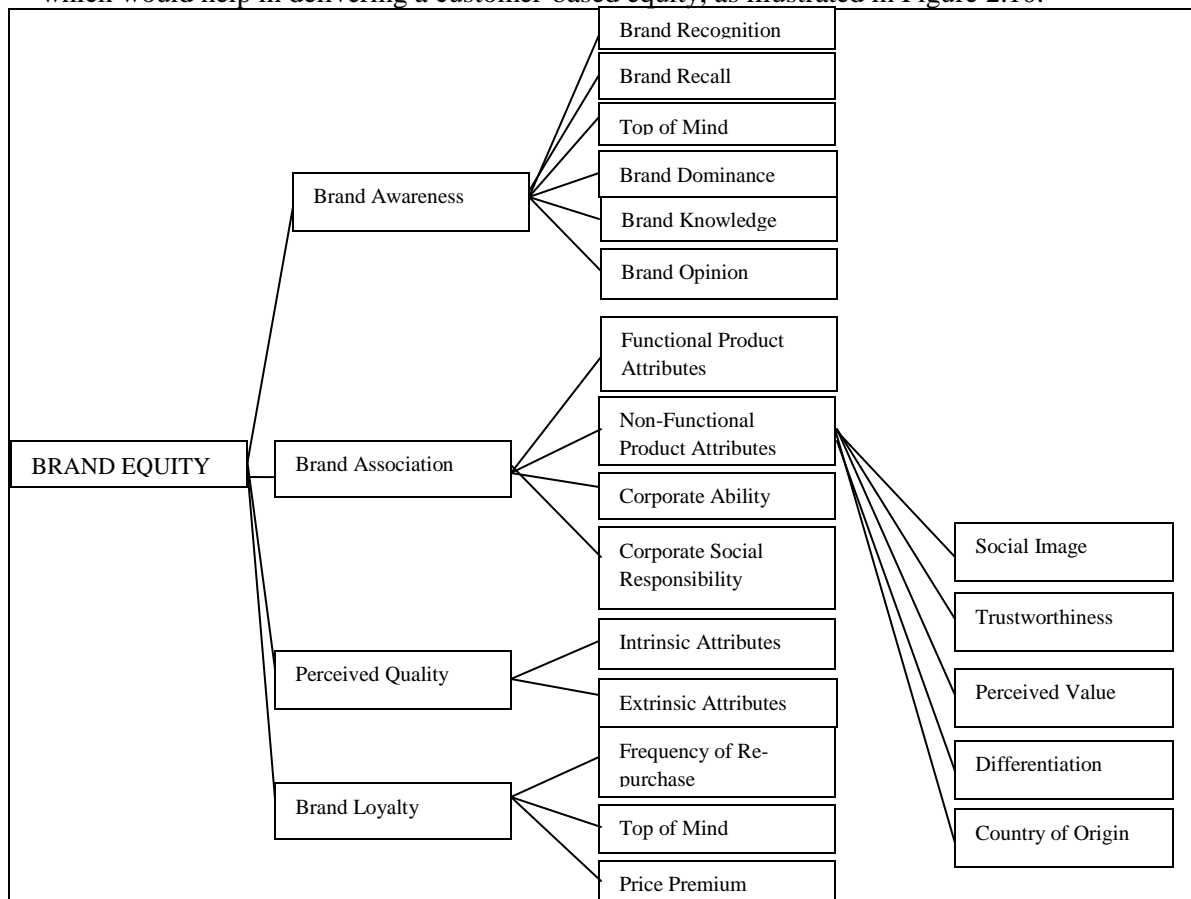


**Figure 2.9: Keller's Customer-based Brand Equity (CBBE) Pyramid**

According to Keller, brand equity, is the result that brand knowledge has on consumer reaction to the marketing of a brand, with the impact happening when the brand is known and when the consumer holds favourable, strong and unique brand associations. (Keller, 1993) The Customer-Based Brand Equity (CBBE) model distinguishes four steps which represent questions asked by customers and embodies a “branding ladder”, with each step dependent on the previous step. (Keller, 2001) These steps are composed of six brand building blocks, with some sub-dimensions. (Keller, 1993) Reaching the top of the pyramid would mean that you have managed to build a strong brand, where a well-balanced relationship exists with customers.

In brief, the first step of the CBBE model is to reach the correct ‘brand identity’. It consists of the brand building block “salience”. Here the customers ask the brand: Who are you? And the aim is to initiate an identification of the brand, and an association with a specific product class or need. (Keller, 2003) The second step is to establish brand meaning by answering the question: What are you? This is where linking and brand associations occur with certain properties. (Keller, 2001) “Performance” and “imagery” are the two brand building blocks that compose this step.

Keller has also identified a comprehensive map for building customer-based brand equity; starting with choosing the relevant brand elements – such as brand name, logo, symbols, character, packaging, and slogan – through to developing marketing programs and properly managing the marketing mix, and on to leveraging the brand’s secondary associations, all of which would help in delivering a customer-based equity, as illustrated in Figure 2.10.



**Figure 2.10: A Framework for Measuring Brand Equity**

Though some differences might arise in the brand equity elements overall there is an agreement on the essence, the model developed, and the definition developed by both Keller and Aaker. These elements are mainly brand awareness, brand perceived quality, and brand association (image). Some would add brand loyalty, brand preference or familiarity, and brand resonance. However, there is an agreement on the three elements that constitute the Brand Equity Construct within the research under study.

Francois and MacLachlan (1995) assumed that brand ‘strength’ leads to brand ‘equity’ because the meaning of equity comprises both financial value and future actions. In their research, Francois and MacLachlan use the word “strength” instead of “equity”. They measured two types of brand strength: intrinsic and extrinsic. For the intrinsic they measured the factors of customers’ experiences and exposure to a brand, such as knowledge, attitude, preference, and behaviour. For the extrinsic they measured reactions to short-term stimuli, such as price changes.

Agarwal and Rao (1996) compared 11 different consumer-based brand equity measures.

The framework of brand equity was based on the “perception-preference-choice” paradigm. The 11 measures are presented in Table 2.3.

<b>Dimension</b>	<b>Measures (M)</b>
Brand awareness	1. Percentage of unaided recall 2. Familiarity Index
Brand perception and attitudes	3. Weighted attribute score 4. Value for money 5. Quality of brand name 6. Overall evaluation
Brand preference	7. Derived brand index 8. Dollar metric measure
Choice intentions	9. Purchase intention 10. Brand-specific choice coefficients
Actual choice	11. Index of past purchase

**Table 2.3: Agarwal and Rao’s Measures of Consumer-Based Measures Brand Equity - Source: Agarwal and Rao, An Empirical Comparison of Consumer-Based Measures of Brand Equity, 1996**

### **2.6.3 Combined Perspective of Brand Equity**

Some authors have combined the financial and customer-based perspectives of brand equity. Motameni and Shahrokhi (1998) developed the Global Brand Equity (GBE) model that estimates the value of brand equity and explains its sources of value. They use an interdisciplinary approach, applying financial techniques and quantifying value components, as illustrated in Figure 2.11. Baldauf, Cravens, and Binder (2003) suggest using perceived quality, brand loyalty, and brand association as measures of brand equity, and combining them with financial parameters as indicators of performance. They found that firms with higher levels of these measures have higher levels of performance. This confirms the significance of brand equity as an indicator of performance. Dyson, Farr, and Hollis (1996), after identifying the financial value linked to brands, propose a consumer-driven system of measuring equity. They claim that economic value is created in transactions which are the source of equity. Consequently, they developed the Consumer Value Model that forecast transactions in order to bridge the gap between both the intangible perceptions and the tangible revenues created by a brand.

Blackston (1995) argued that brand equity could be viewed from two perspectives: brand value and brand meaning. He stated that brand meaning impacts and influences brand value because value depends on the meaning, and that changing brand meaning is equal to changing the value of the brand. He added that brand meaning is comprised of three dimensions: brand salience, brand association, and brand personality. He proposed a brand relationships model in which all three were divided into two dimensions: brand image/brand personality and brand attitude. Thus, by measuring these two dimensions, he suggested that marketers could set their brand strategies.



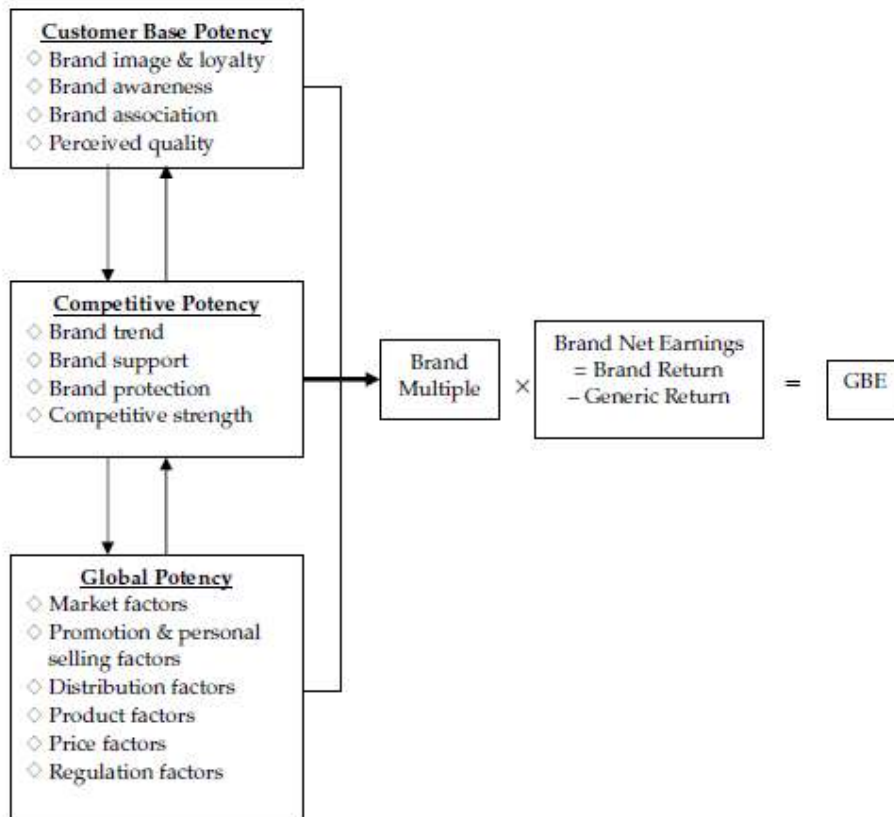


Figure 2.11: Global Brand Equity Valuation Model - Source: Motameni and Shahrokhi, *Brand Equity Valuation: A Global Perspective*, 1998

## 2.7 Measuring Brand Equity

There is a great deal of debate around how brands should be measured and valued. Two approaches have developed for measuring brand equity, either from a consumer-driven dimension or from a financially driven brand valuation dimension. This section will explore the most popular techniques for assessing and valuing brand equity relevant to the context of this study.

### 2.7.1 Aaker Method

The former UC-Berkeley marketing professor David Aaker established a tool composed of 10 criteria to measure the strength of brand equity. Unlike other methods, Aaker's does not produce

a single net score. He claims that any weighting of the individual components of his model would be subjective.

### **David Aaker – The Brand Equity Ten**

#### **Loyalty Measures**

Differentiation

Satisfaction/Loyalty

#### **Perceived Quality/Leadership Measures**

Perceived Quality

Leadership/Popularity

#### **Association/Differentiation Measures**

Perceived Value

Brand Personality

Organizational Association

#### **Awareness Measures**

Brand Awareness

#### **Market Behaviour Measures**

Market Share

Market Price and Distribution Coverage

### 2.7.2 Bill Moran Brand Equity Methodology

Bill Moran has argued that brand equity is composed of three factors: effective market share, relative price, and customer retention (loyalty), as illustrated in Figure 2.9.



**Figure 2.12: Moran Brand Equity Methodology**

According to the Moran Methodology, each factor captures one aspect of a strong brand. On the other hand, some trade-offs occurs among the factors. For example, increasing price might decrease retention and market share. As illustrated in Figure 2.12, effective market share is the share within each relevant segment weighted by the percentage of the brand's sales within the segment. Since pricing strategies vary among brands, some have recommended that multiplying this index by the size of the dollar market in which the brand competes would provide a better estimate of the brand value. (Ailawadi et al., 2002)

### 2.7.3 BRANDZ - Millward Brown Optimor

The marketing research consultants Millward Brown and WPP have developed the BRANDZ model of brand strength. They define the brand dynamics Pyramid, where brand building involves a sequential series of steps, namely: presence, relevance, performance, advantage, and

bonding. This is the first brand ranking to combine financial data with primary research data, based on the Bloomberg and BrandZ Database.

#### **2.7.4 Young & Rubicam (Y&R) Brand Asset Valuator (BAV<sup>®</sup>)**

Since 1993, Young & Rubicam's (Y&R) Brand Asset Valuator (BAV) initiative has undertaken surveys of consumers regarding perceptions of brands on 56 different brand metrics. The frequency of data collection has not been constant and has increased over time. BAV measures brand value by applying four broad factors: Differentiation, Relevance, Esteem, and Knowledge. A BAV survey is conducted annually, involving around 20,000 brands and based on the opinions of 230,000 respondents in 44 countries. Like others, this method allows only for a qualitative valuation of the brand. According to Y&R methodology, the degree to which a brand is both differentiated and relevant to consumers steers brand strength in the marketplace. However, brand stature is formed by its relative performance in terms of esteem and knowledge measurements. As such, brand power is the summation of both brand strength and brand stature.

#### **2.7.5 Interbrand Method**

Interbrand is one of the most popular valuation references, declaring on an annual basis the top 100 ranked worldwide brands in terms of value. Interbrand determines the projected future earnings for the brand and a discount rate to adjust earnings for inflation and risk. Brand earnings are based on a three-year weighted average of historical profits that exclude a number of considerations not related to brand identity. Interbrand adjusts these earnings and scores a brand out of 100 using an in-depth assessment of brand strength based on the following seven factors:

- Market: buoyancy of environment
- Stability: proof of survival
- Leadership: brand influence
- Trend: brand performance versus competition

- Support: strength of consumer franchise
- Geographic spread
- Protection

All nominees have to satisfy three conditions to be eligible for the valuation. They must have brand values greater than \$1 billion; be global in nature, meaning they must derive at least one third of their sales from outside their home countries and have significant distribution throughout the Americas, Europe, and Asia; and have publicly available marketing and financial data. These conditions exclude some big brands such as Visa International, the BBC, and Mars. BusinessWeek uses Interbrand's method because it values brands in the same way that analysts value other assets, i.e. on the basis of how much they are expected to earn in the future. Interbrand, with its brand strength multiplier, measures as well the qualitative side of the brand.

### **2.7.6 Financial World**

Financial World's valuation is one of the best known brand rankings. It uses a simplified version of Interbrand's method. It determines the difference between one brand's earnings and the earnings obtained from an unbranded product. The difference is called "branded specific net earnings". It then applies a multiple calculated with regards to the brand strength. The result is the brand value.

### **2.7.7 Landor Breakaway Brands**

This study objectively measures return on sustained investment in a brand in terms of both financial value and brand strength. The Landor Breakaway Brands looks at all 2,500 brands in the Brand Asset Valuator's US database to determine which 10 brands have had the most significant gains in brand strength over a three-year time period. It focuses on the overall change in business value, not on a single brand number. It is not about the biggest brands, but about the brands that

drive business performance. The methodology is grounded in a globally respected and referenced consumer survey (Brand Asset Valuator) and economic framework (EVA). However, Landor Breakaway Brands focuses on the overall change in business and not on a single brand number.

The previous section explored the different brand equity concept, approaches, and measurements techniques in order to clarify the significance attention given to the concept, and explain its relevance to the research understudy. The following section will explore the antecedents and consequences of brand equity and its relevance to the conceptual framework of this study.

## **2.8 Antecedents and Consequences of Brand Equity**

Although the brand equity concept received increased attention in recent decades, there is still no clear knowledge about its antecedents and how brand equity develops and consequently its impact on purchase behavior.

A conceptual development of empirical knowledge about the relationships between marketing efforts as antecedents of brand equity is still in its early stages. A few previous studies that have tackled the task are uncertain because of the lack of a leading theoretical framework, limitation of the method they apply, subjective definition of brand equity, or their outcome measure.

This research is testing the antecedents of brand equity of Chinese brands, with relevant attributes deduced from extent literature and Chinese context. Furthermore the research is investigating the effect of Chinese COO on Chinese brand equity. The research is utilizing two cases studies within the automotive industry to examine the impact of specific antecedents on building brand equity.

Some empirical evidence of the relationship between marketing activities and brand equity have been originated and are described next.

Literature identified both functional and experiential antecedents to Brand Equity. Due to the nature of the research and the stage in which Chinese are currently experiencing, the focus of this

research will mainly be on functional attributes mainly relevant to the marketing mix such as product quality, perceived value, distribution intensity, and joint ventures and Co. Branding in addition to the Country of Origin.

Calderon, Cervera, and Molla (1997) recommended that brand equity is better measured from a marketing methods approach rather than from a financial approach. This research approaches brand equity as a concept measured from a marketing methods approach.

Extent literature suggests that brand equity has both functional and experiential antecedents (Kocak, Abimbola, and Ozer, 2007). The functional antecedents reflect the presence of a brand's intrinsic utilitarian aspects and its ability to satisfy consumers' functional needs and wants (Keller, 2001). These are believed to be often "linked to fairly basic motivations, such as physiological and safety needs, and involve a desire for problem removal or avoidance" (Keller, 2003). Examples of functional antecedents are reliability, durability, style, design, price, logo, distribution intensity, warranty, and effectiveness.

With respect to brand equity's experiential antecedents, the literature indicates that they reflect a brand's ability to satisfy one's psychological or social needs (Keller, 2001). Examples of experiential antecedents are personality, advertising spending, active engagement, and attitude.

In their paper about brand equity antecedents within industrial context, A. Van Riel, C. de Mortanges, et al., (2004) have investigated the relevance of several marketing mix dimensions for the creation of industrial brand equity for both product and corporate brands.

They also stressed that in certain industries, price is mostly viewed as the most significant purchasing decision criterion, while others estimate that price accounts for not more than 70% when taking a final decision (Mudambi et al., 1997). However, quality can be considered equally important as price (Alvarez & Galera, 2001). Perceived value is therefore a significant concept

especially in industrial markets. It is important that the perceived value by the buyer surpasses the price.

Moreover, distribution performance plays an important role in creating satisfaction with a product in industrial markets (Mudambi et al., 1997).

Buyers indicate that service is also important to them, to the extent they are willing to pay more for what they perceive to be of superior service (Duckler, 2001). Both service quality and product's physical quality form the basis for competitive advantage (Alvarez & Galera, 2001).

Drivers identified in previous studies were: physical product attributes, distribution services (ordering and delivery), and support services.

The results of A. Van Riel, C. de Mortanges, et al. (2004) revealed that past investments in the 5 P's of the marketing mix (product, place, people, promotion and price) contributes to the way buyers perceive brand equity. Buyers' perceptions about the 5P's have an influence on the way they perceive and evaluate the brand. This, in turn, affects their purchase decisions. By investing in the 5P's, companies create brand awareness and a positive brand image. In this way, brand equity and loyalty are created.

In their research A. Van Riel, C. de Mortanges, et al. (2004) confirmed that their proposed antecedents of the two components of industrial brand equity (Product Brand Equity and Corporate Brand Equity) match with the P's of the marketing mix: product, place, promotion, price and people. The 5P's are usually fully controlled by the company in order to make exchange possible. The study therefore affirmed that brand equity can be explained as a result of past investments in the marketing of the brand (Keller, 1998).

Yoo, Donthu and Lee (2000) measured the impact of five marketing mix drivers in three product categories: athletic shoes, camera film, and color TV. The marketing mix elements studied were price, store image, distribution intensity, advertising spending and price deals



promotions. Each of these elements was tested to influence brand equity sources (brand awareness/association, brand quality and loyalty). Their results show that high advertising spending, high-price, good store image and high distribution intensity affect consumers' perception of quality, awareness and loyalty. The marketing mix elements were also statistically significant in their indirect impact on brand equity. On the opposite, the results show that frequent price deals influence negatively the perception of quality.

Although marketing communication has been suggested as an important brand equity driver, it does not appear to do the same in the insurance industry. A study conducted by Herrmann et al. (2007) proposed that five specific performance areas relate to an insurance company's marketing mix, and affect brand equity. The five performance areas are product performance (including indicators such as price-performance ratio attractiveness, consideration of individual requirements), field personnel (interpreted as advisers' technical knowledge and friendliness), communications (company presence in relevant media), in-house personnel performance (measured by items as reliability of the administration) and company resources (measured by items like serious style of senior managers). Out the five marketing activities, product performance, field personnel and in-house personnel performance had a statistically significant impact on brand equity (Herrmann et al., 2007). Product performance is the most important, followed by field and in-house personnel performance.

To summarize, the section recognizes several marketing drivers, among others price, promotion, distribution, advertising, staff contact, support service and store image. These various marketing activities perhaps should be regarded as a portfolio of investments, where each activity has its own potential and effect on creating brand equity both directly and

indirectly. Research that links marketing elements as drivers of brand equity can help marketers make the best alternatives by detecting the right mix of drivers and sources.

Although literature investigated multiple attributes as antecedents of brand equity. This research will mainly focus on functional antecedents of brand equity relevant to the Chinese context. Many models were developed from existing lists and discussions of brand equity antecedents and consequences, however, developing a model based on all the lists and discussion may be problematic due to moderating variables and relationships that have not yet been examined.

Nonetheless, consideration of the developed model is offering a potential starting point for empirical study that may lead to more sophisticated brand equity models and provide more insight into the Chinese path to building brand equity and its various relationships.

## **2.9 Consequences of Brand Equity**

It is also important for the purpose of this study to highlight the consequences of strong brand equity. How would Chinese directly benefit by building strong brand equity.

Literature identified five consequences that clearly link to brand equity. First, brand equity leads to an individual having reduced anticipated risk concerning a brand purchase decision (Guerrero et al., 2000; Lassar, Mittal, and Sharma, 1995).

The second consequence is that brand equity strengthens one's anticipated confidence in a brand purchase decision (Aaker, 1996). Since one normally does not have all of the necessary information, time, or motivation to make rational and objective purchase decisions, brand equity can guide an individual to anticipate a greater level of confidence in one's brand purchase decision (Aaker, 1992, 1996; Keller, 2003).

The third consequence is an individual's expected satisfaction with the product. This refers to the cognitive process by which one compares a brand's usage outcomes to one's expectations (Cadotte, Woodruff, and Jenkins, 1987; Oliver, 1980), and their resultant psychological state of

mind (Oliver 1999). For example, if one perceives that a brand meets/exceeds their expectations, that individual will likely experience feelings of satisfaction (Oliver, 1999).

The fourth consequence is that brand equity may affect one's anticipated obscurity with regard to the purchase decision process (Aaker, 1992), highlighting the difficulty in actually making the purchase decision. For example, de Chernatony and Riley's (1997) research suggests that brand equity reduces the difficulty of one's purchase decision process by finding that the presence of a specific brand name supports one to make purchase decisions with little consideration.

Lastly, the fifth consequence is that enhanced brand equity will likely positively influence purchase behavior (Aaker, 1991; Farquhar, 1989; Guerrero et al., 2000; Keller, 1993), which is the ultimate objective of organizations.

## **2.10 The Conceptual Framework**

Brand equity is thought of as a multidimensional concept and a complex phenomenon. (Tong and Hawley, 2009) Aaker (1991) proposed that brand equity is composed of five dimensions: brand awareness, brand association, perceived quality, brand loyalty, and other brand propriety assets, such as patents, trademarks, and channel relationships. On the other hand, Keller (1991) argued that it consists of two elements: brand awareness and brand image.

In this study the researcher has combined Aaker's (1991) and Keller's (1991) models by investigating the elements of the brand equity construct in terms of brand awareness, brand association (image), and perceived quality as sources of brand equity for Chinese brands. The following paragraphs will further explore the three dimensions under study, along with the other dimensions.

It is worth noting that many researchers – such as Tong and Hawley, 2009; Yoo et al., 2000; Chen and Tseng, 2010; Erenkol and Duygun, 2010 – believed that brand awareness, brand association, perceived quality, and brand loyalty to be common dimensions of brand equity.

Positive brand equity implies that customers have a lot of positive and strong associations related to the brand, and that high quality perception can lead to brand loyalty. (Yoo et al., 2000) Consequently, this study will adopt Aaker's (1991) model, illustrated in Figure 2.13, while excluding brand loyalty. This is because brand loyalty is assumed to be the end result of a proper brand building process and is therefore irrelevant to the study of Chinese brand equity.

### 2.10.1 Dimensions of Brand Equity

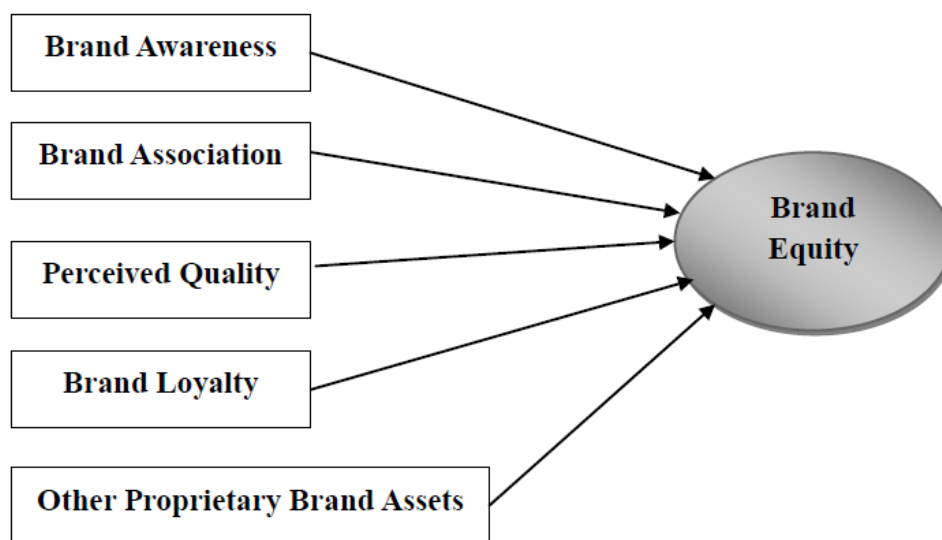


Figure 2.13: Aaker's Dimensions of Brand Equity - Source: Aaker, D. (1991)

#### 2.10.1.1 Brand Awareness as a Dimension of Brand Equity

Brand awareness is the primary attribute of customer-based brand equity. It is sometimes taken lightly as a component of brand equity. (Aaker, 1991; Aaker, 1986; Tong and Hawley, 2009)

Brand awareness is defined as “the ability of a buyer to recognize or recall that brand is a member of a certain product category.” (Aaker, 1991) Keller (1993) found that it is composed of both brand recall and brand recognition. Keller further explained that brand recognition “relates to the consumer's ability to affirm the prior exposure to the brand when given the brand as a cue.”

(Keller, 1993) However, brand recall is “related to the consumer's ability to retrieve the brand

when given the product category, the needs fulfilled by the category, or some other type of probe as a cue”. (Keller, 1993) For a new or niche brand, the important issue is recognition. Alternatively, for a well-known brand, recall and top-of-mind is more important and more significant. (Aaker, 1986)

Over and above, brand awareness supports customers’ decision making – especially for low-involvement packaged goods – and reinforces brand performance in the market. (Huang and Sarigöllü, 2011) As such, when marketers focus on brand management to create brand awareness and empower the connection between the brand and the customer, it reflects on the customer’s brand selection. (Wang et al., 2008; Xu and Chen, 2010) In brief: “brand awareness precedes building brand equity” in the consumer mindset (Huang and Sarigöllü, 2011); it affects customers’ perceptions and attitudes, as well as influencing customer’s brand choice and brand loyalty. (Aaker, 1986)

#### **2.10.1.2 Brand Association as a Dimension of Brand Equity**

Brand association is another important dimension of brand equity. It is defined as “anything linked in memory to a brand” and brand image is “a set of associations, usually related in some meaningful way”. (Aaker, 1991) Keller (1993) defined brand associations as “impressions based on other information that is related to impressions created by the brand in the minds of consumers and that include the brand’s meaning for the consumers”. Based on prior research, Xu and Chen (2010) found that among impressions and associations linked to a brand could be a product, country of origin, firm, competitor, seller, or users with a particular demographic or lifestyle characteristic. Nevertheless, the association with a brand might be stronger when it is based on numerous experiences or exposure to communications, rather than a few. (Aaker, 1991; Marinova *et al.*, 2011)

Erenkol and Duygun (2010) suggest that brand associations facilitate the role of communicators in delivering an idea of a product or service to consumers, or communicating thoughts related to the brand. Over and above it supports in developing brand differentiation and positioning. Furthermore, brand association creates value for the firm as well as for its customers by supporting the process of information seeking; it distinguishes the brand, creates positive attitudes and feelings, provides a reason to purchase a brand, and forms the basis for brand extensions. (Aaker, 1991; Tong and Hawley, 2009)

Brand association is the effect of high brand awareness, and is positively related to brand equity, since it is considered “a sign of quality and commitment”, leading customers to become familiar with a brand. Above all, brand associations help the consumer consider the brand at the point of purchase. (Aaker, 1991; Tong and Hawley, 2009; Marinova *et al.*, 2011; Yoo *et al.*, 2000) Building positive brand associations pave the way to the creation of a positive brand image, which is a conceptual predecessor to significant brand equity. (Aaker, 1991; Faircloth *et al.*, 2001)

Other researchers – Farquhar & Herr, 1993; Chen, 1996; Brown & Dacin, 1997; Biel, 1992 – identify different types of association that play a role in brand equity. Chen (2001) categorized two types: product associations and organizational associations.

#### *Product Associations*

Product associations comprise functional attribute associations and non-functional associations (Chen, 2001). Functional attributes are the tangible features of a product. (Keller, 1993, Hankinson and Cowking, 1993, de Chernatony and McWilliam, 1989) While evaluating a brand, consumers link the performance of the functional attributes to the brand. (Pitta and Katsanis, 1995, Lassar *et al.*, 1995) If a brand does not perform the functions for which it is designed, the brand will have a low level of brand equity. Performance is defined as a consumer’s judgment

about a brand's fault-free and long-lasting physical operation, and flawlessness in the product's physical construction. (Lassar et al., 1995) Non-functional attributes comprise symbolic attributes (Aaker, 1991, Keller, 1993, Farquhar & Herr, 1993, Chen, 1996, Park et al., 1986) which are the intangible features that meet consumers' needs for social approval, personal expression, or self-esteem. (Keller, 1993, Hankinson and Cowking, 1993, de Chernatony and McWilliam, 1989, Pitta & Katsanis, 1995) Consumers linked the social image of a brand, trustworthiness, perceived value, differentiation, and country of origin to a brand.

#### *Organizational Associations*

Organizational associations include corporate ability associations, which are those associations related to a company's expertise in producing and delivering its outputs; and corporate social responsibility associations, which include an organization's activities with respect to its perceived societal obligations. (Chen, 2001) According to Aaker (1996), consumers consider the organization to be the people, values, and programmes that lie behind the brand.

#### **2.10.1.3 Perceived Quality as a Dimension of Brand Equity**

Perceived quality is "the core construct" in measuring brand equity. (Aaker, 1996) Perceived quality is defined as "the consumer's subjective judgment about a product's overall excellence or superiority." (Zeithaml, 1988) Accordingly, perceived quality is not the actual quality of product, but rather the consumer's subjective assessment of that product. (Zeithaml, 1988; Erenkol and Duygun, 2010) "Personal product experience, unique needs, and consumption situation" can affect the consumer's subjective evaluation of quality. (Yoo *et al.*, 2000)

Zeithaml (1988) and Steenkamp (1997) classify the concept of perceived quality in two groups: intrinsic attributes and extrinsic attributes. The intrinsic attributes are related to the physical features of a product (e.g. colour, flavour, form and appearance). Extrinsic attributes are related to the product, but not in the physical form (e.g. brand name, stamp of quality, price, store,

packaging, and production information. (Bernue's et al., 2003) It is difficult to generalize attributes, as they are specific to product categories. (Olson and Jacoby, 1972, Anselmsson et al., 2007)

A study into the factors that are critical in developing brand equity (Suranga et al., 2012) concluded that perceived quality is the most important.

In summary: perceived quality is a component of brand value that helps the consumer select one particular brand over other competing brands. (Yoo *et al.*, 2000)

#### **2.10.1.4 Brand Loyalty as a Dimension of Brand Equity**

Aaker (1991) states that brand loyalty is: "a measure of the attachment that a customer has to a brand" (p. 91). Oliver (1979) defined brand equity as "a deeply held commitment to re-buy or re-patronize a preferred product or service consistently in the future, despite situation influences and marketing efforts having the potential to cause switching behaviour" (p. 392) Thus, brand loyalty is believed to be the most important brand equity dimension, and is a consequence of the three given brand equity dimensions: brand awareness, brand association, and perceived quality. (Tong and Hawley, 2009)

Accordingly, brand loyalty is unlike the other brand equity dimensions because it is directly associated with user experience. (Aaker, 1991) Furthermore, brand loyalty reduces uncertainty and eliminates the costs of seeking new relational exchanges with another brand. (Erenkol and Duygun, 2010) Brand loyalty causes consumers to buy a brand routinely and decreases the chances of them switching to other competing brands. (Yoo et al., 2000)

The American Marketing Association defines brand loyalty as "the situation in which a consumer generally buys the same manufacturer originated product or service repeatedly over time rather than buying from multiple suppliers within the category"; or, "the degree to which a consumer consistently purchases the same brand within a product class".



Some authors think of brand loyalty as a behavioural response and as a function of psychological processes. Thus, brand loyalty is a function of both attitudes and behaviour (habit). Brand loyalty qualitatively differs from other dimensions of brand equity, since it relates directly to the use experience. Brand loyalty is subject to prior purchase and use experience, while awareness, associations, or perceived quality may be investigated and studied even when the brand is not yet used. (Silva et al., 2012) As such, brand loyalty was excluded from the research.

Wenbo Cui's research (2011), confirmed statistically the effect of brand equity dimensions (brand awareness, brand association, perceived quality, and brand loyalty) on brand equity consistent with the prior researches of Marinova et al. (2011); Yoo et al. (2000); Tong and Hawley (2009); and Erenkol and Duygun (2010). Wenbo Cui's (2011) study was based on the Chinese sports shoes market. His findings highlighted that perceived quality and brand loyalty both have a significant effect on brand equity building. He stated that in the highly competitive Chinese market it is important to provide Chinese consumers with a positive or highly perceived image of the brand. He added that marketers should work on enhancing the perceived quality of a brand by offering high quality products and unique styles, with after sales services and warranties to support the perception of high quality products. Highly perceived quality enables consumers to recognize the superiority of a brand and facilitates their choice when selecting the brand over competing brands. (Yoo et al., 2000)

### **2.11 Summary of the Brand Equity Literature Review**

Brand equity components, along with brand equity measures, were for a long time a significant subject of research and study within the business and marketing management contexts.

From a managerial perspective, brand equity helps organizations build their sustainable competitive advantages. (Bharadwaj, Varadarajan, and Fahy, 1993)

For the purpose of this research focus will mainly be on the brand equity dimensions, since these directly relate to the research problem and the early stages of development of Chinese brands. The brand equity dimensions – brand awareness, perceived quality, and brand association (image) – constitute the brand equity construct under study.

Brand loyalty, perceived quality, and brand awareness/associations are positively related to brand equity. Because brand equity is entrenched in these dimensions, brand management should take advantage of the current strength of the dimensions. A brand-leveraging strategy that disregards the sources of brand equity may jeopardize the brand and its extensions. (Aaker, 1997)

In summary: consumers ultimately decide with their purchases which brands have more equity based on certain factors they perceive to be important.

Keller (1993) stated that a financial perspective could be useful in the context of mergers, acquisitions, and divestiture, since it provides a more precise insight into the valuation of brands. However, it might not be helpful for managers to base their branding strategy upon one unless they are powerful in handling financial data. He added that research in marketing concentrates on a customer-based approach because it is more relevant and provides a strategic vision of consumer behaviour and supports the development of a brand strategy.

On the other hand, Ailawadi et al (2003) suggest that measuring the customer mindset could be subjective and hard to use in supporting strategies because it is based on consumer surveys.

The brand equity approach is adopted in the context of this study, and the researcher will use the consumer-based perspective of brand equity because it has been validated. (Washburn and Plank, 2002).

Although the detailed elements of different approaches to conceptualizing brand equity can differ, they tend to share a mutual meaning. All definitions of brand equity depend either implicitly or explicitly on brand knowledge formation in the minds of the consumers. This, by default, forms

the foundations of brand equity in thoughts, feelings, images, beliefs, attitudes, and experiences.

As such, customer-based brand equity has been defined as the differential effect that consumer brand knowledge has on consumer response to brand marketing activity. (Keller, 2003)

Following this argument, the researcher examined the COO and selective marketing mix elements as antecedents of brand equity to investigate how Chinese brands are employing such elements to differentiate themselves and build strong brand equity over time.

The following section will partly explore the definitions of “marketing” and “marketing mix”.

## **SECTION 2: MARKETING MIX AND BRAND EQUITY**

Many researchers have investigated the concept and meaning of brand equity, yet the sources of brand equity and the effect of marketing mix elements were rarely studied or investigated. This research is exploring selective marketing mix elements such as the product quality, perceived value, geographical presence, along with joint venture and co-branding as antecedents of building Chinese brand equity. There are many definitions of the terms “marketing” and “marketing mix” in the literature. The objective of this section is to highlight the main definitions which directly relate to the attributes of this study.

Marketing is the process by which companies create value for customers and build strong customer relationships in order to capture value from customers in return. (Kotler and Armstrong, 2012) Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. (Kotler and Keller, 2012)

Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers, and for managing customer relationships in ways that benefit the organization and its stakeholders. (In 2008, the American Marketing Association unveiled this new, revised definition of marketing; used as the official definition in books, by marketing professionals, and taught in universities.) The American Marketing Association revisits the definition of marketing every five years, in a disciplined effort to reflect on the state of the marketing field. This process, as laid out in the AMA’s bylaws, is guided by a committee whose members represent a cross-section of the marketing industry. The committee was formed in late 2006, under the leadership of Donald R. Lehmann, the George E. Warren Professor of Business at Columbia Business School in New York.

The Marketing Concept is a philosophy. It makes the customer, and the satisfaction of his or her needs, the focal point of all business activities. It is driven by senior managers who are passionate about delighting their customers. Marketing is not only much broader than selling – it is not a specialized activity at all. It encompasses the entire business. It is the whole business seen from the point of view of the final result, that is, from the customer's point of view. Marketing is getting the right product or service to the right people (target market), at the right time, at the right place, at the right price, with the right communications and promotion.

Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy the perceived needs, wants, and objectives of individuals and organizations. (Weingold, Arens, 2011)

Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of goods and services to facilitate exchanges that satisfy individual and organizational objectives. (Nickels, McHugh, 2008)

Marketing is the performance of activities that seek to accomplish an organization's objectives by anticipating customer or client needs and directing a flow of need-satisfying goods and services from producer to customer or client. (Perreault, Cannon and McCarthy, 2011)

Marketing is the process of creating, distributing, promoting and pricing goods, services, and ideas to facilitate satisfying exchange relationships with consumers and to develop and maintain favourable relationships with shareholders in a dynamic environment. (Pride and Ferrel, 2007)

The marketing process of planning and delivering to the market the right product, with the right price, presence, and communication is a prelude to building strong brands, and even to differentiate one brand from the other. The marketing mix elements support organizations to profoundly establish the core differentiated brand as part of the process of brand building and strong equity establishment.

As defined by Kotler and Armstrong (2012) Marketing Mix is the set of tactical marketing tools – Product, Price, Promotion and Place – that a firm blends to produce the response it wants in the target market.

The term marketing mix was invented in an article written by Neil Borden under the title “The Concept of the Marketing Mix”. He started teaching the term after an associate, James Culliton in 1948, described the role of the marketing manager as a "mixer of ingredients"; noting that sometimes marketing managers invented their own recipes and sometimes they followed recipes prepared by others.

The marketer E. Jerome McCarthy introduced the four Ps classification - Product, Price, Place, and Promotion – in 1960 (Needham, Dave, 1996); it has since then been employed by marketers all over the world. The following will define each element of the marketing mix;

**Product:** A product is seen as the tangible or intangible item that satisfies what the consumer needs or wants. It is a tangible good or an intangible service. Intangible products are mainly service-based; i.e. in the tourism, hotel, and financial industries. Tangible products are those that have a physical presence; i.e. cars, personal computers, etc. (Needham, Dave, 1996).

Products are subject to a lifecycle: starting from a growth phase, followed by a maturity phase, and concluding with a period of decline as sales fall. Marketers need to study carefully the longevity of their product lifecycle and introduce product strategies by increasing certain product lines, exploiting the brand, positioning the product, and configuring how the product mix can support the survival of the product. Over and above, marketers must consider product quality and its effect on the perception of the brand to maintain the brand’s health, reputation, and image. The researcher is exploring mainly the product quality aspect of the product element of the marketing mix. The relevance of product quality is derived from its significance to the Chinese context and their long standing legacy of poor product quality.

Price: Price is the customer's perceived value of the product and it is the amount a customer pays for specific product. (Needham, Dave, 1996) The price is a very important element of the marketing mix as it determines the company's profit. Marketers should set a price that complements the other elements of the marketing mix. When choosing a price, a marketer must consider the reference value, which is the price of competing products, as well as the differential value, which relates to the product's differentiation points relevant to the competitors. To a great extent the price of a product relates to the brand image. When the price is high, typically the brand perception is high; unless proven otherwise when the product is placed under the real purchase test.

To what extent the price of Chinese products and the perceive value is supporting the brand equity, is one of the questions this research is trying to answer.

Place: Place refers to convenience of the product and how the product will be accessible. (Needham, Dave, 1996) Many strategies can be explored, such as intensive distribution, selective distribution, exclusive distribution, and franchising to support in complementing the other elements of the marketing mix. Place or distribution also encompasses the geographical expansion of a product and the export strategy. For the purpose of the study, the researcher is mainly addressing the geographical expansion of Chinese brands.

Promotion: Promotion refers to communication. It concerns how marketers exploit various communication methods, such as advertising, public relations, personal selling, and sales promotion. It also includes how the brand is going to be introduced to the market, and how strategies such as co-branding could be explored to support the development of the brand.

The following section will explore the relation between the different elements of the marketing mix relevant to the study, and its effect on brand building both in general and specifically within the Chinese market context.

## **2.1 Relation between Marketing Mix and Brand Equity**

Although there has been great interest in the concept of brand equity, little conceptual development or empirical research has addressed which marketing activities most support the building of brand equity. (Barwise, 1993) Researchers have focused on exploring the brand equity concept, rather than its sources and development. Shocker, Srivastava, and Ruekert (1994) pointed out that more attention is needed to develop more of a “systems view” of brands and products, and how the marketing mix elements created by pricing, promotional, service, and distribution decisions, combined with the product itself, help in creating brand equity and affecting buyer decision making. (p. 157)

This study investigates the antecedents of brand equity within Chinese context represented by selective marketing mix elements, joint venture and co-branding along with the COO. Specifically, the study explores the two cases of GEELY and BYD; both strong players within the automotive industry.

The study explores how these marketing elements will affect the brand equity of Chinese brands. It is a starting point for further research into the linkage between marketing mix elements and brand equity.

Yoo, Donthu, & Lee (2000) suggest that brand equity can be created, maintained, and expanded by reinforcing the dimensions of brand equity. They pointed out that numerous dimensions precede brand equity. For instance, any marketing action could affect brand equity since it signifies the effect of accumulated marketing investments in the brand. For example, brand-name recognition with strong associations, perceived quality of product, and brand loyalty can all be extended through precise long-term investment. Thus, brand equity is not managed in the short term but rather over time, by sustaining brand consistency, protecting the sources of brand equity, taking appropriate decisions about leveraging the brand, and altering the supporting marketing



programmes (Keller, 1998). For instance, taking marketing decisions related to the selection of a brand name could easily affect brand equity either positively or negatively, since it could enhance the reputation and image of the brand, the brand loyalty, and the perceived brand quality.

Researchers also propose that marketing decisions and market conditions influence brand equity. Simon and Sullivan (1993) list advertising expenditures, sales force, and marketing research expenditures – along with the age of the brand, advertising share, order of entry, and product portfolio – as the foundations of brand equity. Marketing activities such as the use of public relations (Aaker, 1991); warranties (Boulding and Kirmani, 1993); slogans or jingles, symbols, and packages (Aaker, 1991); company image, country of origin, and promotional events (Keller, 1993); and brand-naming strategy (Keller, Heckler, and Houston, 1998) have also been put forward. This study focuses on selective elements of the marketing mix – product quality, distribution intensity, price as perceived value, in addition to joint ventures and co-branding – as elements that could affect brand equity. Country of origin has also been included since it directly relates to Chinese brands and to the context of the study. Although these attributes do not cover the full domain of marketing, they do represent the typical marketing elements of importance in Chinese context.

According to Yoo, Donthu, & Lee (2000): “Any marketing effort will be positively related to brand equity when it leads to a more favourable behavioural response to the focal product than to the equivalent unbranded product.” In their conceptual framework, they investigated the relationship between marketing efforts and the dimensions of brand equity. They investigated consumer perceptions of five selected strategic marketing elements: price, store image, distribution intensity, advertising spending, and frequency of price promotions in order to reveal the relationships between marketing efforts and the formation of brand equity.

The section below will examine the relationships of price, distribution intensity, and advertising with the dimensions of brand equity.

Price: Consumers use price as a significant extrinsic cue and signal of product quality or benefits. High-priced brands are often perceived to be of higher quality and lower risk compared to low-priced brands. (Blattberg and Winniewski 1989; Dodds, Monroe, and Grewal, 1991; Kamakura and Russell, 1993; Milgrom and Roberts, 1986; Olson, 1977) Consequently, price is positively related to perceived quality. Rao and Monroe (1989) show that a positive relationship between price and perceived quality is well founded in previous research. By increasing perceived quality, price is related positively to brand equity.

Yoo, Donthu, & Lee (2000) added that they did not find a directional relationship between price and brand associations; since whether the brand is low-priced or high priced it is linked to the benefit of the brand in the memory of the consumer. While a low-priced product would imply transaction utility (i.e. paying less than the consumer's internal reference price), a high-priced product would give a high-quality image or acquisition utility, leading to reduced consumer risk. (Thaler, 1985) Both low- and high-price strategies help consumers equally regarding awareness of the product.

The results of Yoo, Donthu, & Lee (2000) identified two types of managerial marketing endeavours from a long-term perspective of brand management: brand-building activity and brand-harming activity. According to their analysis, frequent use of price promotions is an example of a brand-harming activity. High advertising spending, high price, distribution through retailers with good store images, and high distribution intensity and coverage, are all examples of brand-building activities.

**Distribution Intensity:** Distribution intensity is also highly correlated with brand equity. Making a product available in more stores will increase customer satisfaction through convenience, time saving, speedy service, and service accessibility.

Although there is disagreement about the usage of selective or intensive distribution, the product category and luxuriousness of a brand is a determinant of the distribution usage. While intensive distribution seems more relevant to convenience goods, selective distribution fits specialty goods more. Distribution intensity maintains its effect on brand equity although product-type can significantly moderate the effects. Consequently, high distribution intensity may create high brand equity for all types of products, although the effect varies somewhat depending on the luxuriousness of the product.

Another distribution dimension relates to building global brands. Importantly, to become a global brand producer, firms must recognize that branding strategy is an important way to sustain a competitive advantage. (Gordon, Calantone, & di Benedetto, 1993; Kumar, Bohling, & Ladda, 2003)

**Advertising:** The hierarchy of effects model has revealed that consumers tend to believe advertising statements and foresee a product's likely performance on the basis of the claims. (Richins, 1995) Therefore, when consumers are frequently exposed to brand's advertising, they develop brand awareness, higher associations, and a positive perception of brand quality, which in turns lead to stronger brand equity. It was also noted that one of the major reasons for lower consumer loyalty is a decrease in advertising spending. By strengthening the consumer's brand-related beliefs and attitudes, advertising leads to strong brand loyalty. (Shimp, 1997) Brand image, on the other hand, is more complicated. It is based on multiple experiences and exposures to brand information, and accordingly takes a long time to develop. But advertising is a common

element used to develop, influence, and manage that image. Managers should spend on advertising with the clear objective of increasing brand equity.

The research selected the product quality as one of the antecedents of building strong brand equity within Chinese context. This in part is due to the importance of this attribute to both the Chinese heritage and perception of low quality products and to the importance of this attribute within the automotive industry.

## **2.2 Joint Ventures and Co-Branding and Brand Building**

### **Joint Ventures; a Strategy for Growth and More**

Although much has been written lately about joint ventures (Beamish, 1984; Baldrige, 1983; Berlew, 1984; Burton and Saelens, 1982; Fusfeld and Haklisch, 1985; Hladik, 1984; Perlmutter and Heenan, 1986; Reich and Mankin, 1986; Schaan, 1983; and Stuckey, 1982), past studies of joint ventures have often considered cooperative agreement from the overseas expansion (Ballon, 1967; Beamish, 1985; Beamish and Lane, 1982; Business International, 1965, 1971, 1972). This study is examining a different perspective of the extended effect of Joint Ventures beyond the expansion choice. This study is exploring the positive effect such JV could have on the brand equity of Chinese partners and organizations.

Typically firms enter into joint venture (JV) agreements in order to create new products and services, firms enter new and foreign markets, or potentially both (Beamish, 2008).

A joint venture is a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity. They both exercise control over the enterprise and consequently share revenues, expenses, and assets. There are also joint ventures limited by guarantee, with partners holding shares. (Investopedia Dictionary)

A JV is typically a temporary arrangement between two or more firms, formed to achieve specific objectives. JVs are advantageous as a risk reducing mechanism in new-market penetration, and in pooling of resources for large projects.

Companies enter into joint ventures to share strengths, reduce risks, and increase competitive advantages in the marketplace. They can be in the form of a separate new business unit or entity, or in the form of collaboration between businesses. (Harrigan, 1988) For instance – as in the Chinese automotive industry – a high-technology foreign producer may contract with a local manufacturer to transfer know-how and technology to the Chinese partner in exchange for production capacity. As such JV and co-branding are explored within this research as antecedents of building strong brand equity within Chinese context.

MNEs have realized the huge potential of the emerging car market in China since the early 1980s (Buck et al., 2000). JVs have existed for centuries. In the US they began with the railroads in the late 1800s before spreading to the manufacturing sector. By the late 1980s JVs had begun to appear in service industries, supporting firms' competitive strategies. Some concerns were raised regarding the consequent restrictions to competition, particularly when they were formed between firms that were originally competitors or potential competitors. Another concern was the possible limitation of other players wanting to enter the market. However, legislation was passed to protect against antitrust and joint venture violations.

## **2.2.1 Types of Joint Ventures**

### **2.2.1.1 A Spider's Web of Joint Ventures**

A spider's web of joint ventures (Gullander, 1975) refers to a firm's various alliances with diverse partners formed to realize the same strategic purpose. If firms find appropriate partners they can pursue the spider's web strategy in many situations. Since they possess strong bargaining power they can sit at the hub of a web of various JVs. However, if firms are weak and

do not really possess strong bargaining power; they are better off focusing on one alliance per strategic activity.

#### **2.2.1.2 Cooperative Agreements**

Sometimes the term “cooperative agreements” refers to JV activities that do not involve shared equity. However, they typically lack many of the benefits of the JV form and typically owners do not pool as many resources, or put as much effort into them, as they do in JVs. (Harrigan, 1985a and 1986)

#### **2.2.2 Forms of Joint Ventures**

Joint ventures are either vertical or horizontal. In vertical JVs a buyer-seller relationship is created between owner and venture. Horizontal JVs link owner and venture in the same strategic activities (Harrigan, 1988), as in the Chinese automotive industry and its joint venture agreements with Western producers.

#### **2.2.3 Historic Practices of Joint Ventures**

This section will give a short background about joint ventures and will be further explored in the coming section. There has been a surge in the number of joint ventures since the mid-1970s. (Pfeffer and Nowak, 1976; Ferguson, 1981) In the 1960s the Federal Trade Commission (FTC) observed that in the US at least 1,131 US firms were involved in over 520 domestic JVs; 66% of which were in the manufacturing sector. Originally, four Standard Industrial Classification (SIC) code industry groups represented 27% of the ventures found by Duncan (1980). By 1986, these four industries (paper products; chemicals; stones, clay and glass; and primary metals) represented only 25% of all JVs (Harrigan, 1988) as indicated in Table 2.4.

	Pre-1975	1975-77	1978-83	1984-86
Automobiles	1	1	19	21
All cooperation/U.S. firms	1.0%	0.9%	16.4%	17.1%
Communications equipment	2	10	37	53
All cooperation/U.S. firms	2.4%	11.8%	33.9%	32.3%
Communications services	6	14	52	53
All cooperation/U.S. firms	4.0%	8.3%	28.9%	23.9%
Computer and peripherals	8	12	42	53
All cooperation/U.S. firms	2.2%	3.2%	9.6%	9.6%
Electronic components	3	22	46	51
All cooperation/U.S. firms	2.2%	14.7%	24.1%	21.2%
Engines and aerospace	2	8	25	32
All cooperation/U.S. firms	2.2%	8.7%	22.9%	26.2%
Farm and industrial equipment	0	1	7	10
All cooperation/U.S. firms	0.0%	0.3%	2.2%	3.0%
Financial services	16	27	61	79
All cooperation/U.S. firms	3.1%	4.8%	10.5%	10.7%
Heavy machinery	6	15	18	16
All cooperation/U.S. firms	0.5%	1.3%	1.4%	1.3%
Medical products	6	11	24	27
All cooperation/U.S. firms	2.2%	3.7%	8.3%	8.4%
Metals fabrication	3	4	6	6
All cooperation/U.S. firms	0.4%	0.2%	0.1%	0.2%
Metals processing	5	7	9	8
All cooperation/U.S. firms	0.6%	0.8%	1.1%	0.9%
Mining	9	11	18	16
All cooperation/U.S. firms	4.9%	5.1%	7.4%	9.0%
Office equipment	2	12	25	26
All cooperation/U.S. firms	1.7%	10.3%	22.1%	21.0%
Petrochemicals	44	42	95	93
All cooperation/U.S. firms	2.5%	2.3%	5.2%	4.8%
Pharmaceuticals	6	18	60	87
All cooperation/U.S. firms	2.2%	6.1%	20.8%	26.9%
Precision controls	2	3	18	27

**Table 2.4: Joint Ventures and Cooperative Strategies in Operation as a Percentage of all Activity over Time in Selected Industries**

### **2.2.4 Co-branding Strategy; a Fast-Forward Strategy for Building Brands**

Co-branding is a marketing strategy employing multiple brand names for a single product or service. Essentially, the constituent brands can support each other in attaining their objectives.

Co-branding is a progressive strategy to transfer the positive associations of one company's product or brand to another and creating synergy with existing brands.

It is a strategy that attempts to encapsulate the synergism of merging two well-known and well-liked brands into a third, distinctive branded product. (e.g., Rao and Ruekert, 1994) Examples of co-branding include Edy's ice cream with Girl Scout thin mint cookies; Lexus with Coach Leather Interior; and Kellogg's Poptarts with Smucker's fruit filling.

A co-branding strategy is usually employed to swiftly increase customer acceptance of a new product through one or more familiar brand name. Sometimes the strategy involves two brands of the same organization or takes the form of a branding alliance between two different marketing organizations. (Rao and Ruekert, 1994)

Though co-branding has recently become a prevalent branding strategy, there have been few empirical studies of its impact. Park, Jun, and Shocker (1996) studied combining existing brand names (constituent brands) to create a composite brand extension (CBE), or a co-brand. However, this research focused on a strong lead brand paired with a secondary or modifier brand. Results suggested that when a CBE is initiated the impact on it of the lead brand is greater than that of the secondary brand. The results also suggested that the strong lead brand was not affected by the secondary brand.

Siminon and Ruth (1995) studied the impact of specific product combinations by experimenting with brand bundling, an activity similar to co-branding. They suggested that bundling a new brand with two well-liked products positively affects the bundle and, indirectly, the new brand.

Siminon and Ruth (1995) also studied consumer attitudes towards brand alliance (co-brands). Their research suggested that consumer attitudes towards a specific brand alliance is influenced by the attitude towards the individual brands that compose the alliance and, in the reverse, consumers' attitudes toward partner brands prior to the alliance considerably impact their attitude towards the alliance.



Research conducted into the acquisition of international brands by three Chinese Companies – Lenovo, Huawei, and Nanjing – reveals some relevant results. The strategic intent of both Lenovo and Nanjing was to quickly gain access to a foreign brand, markets, technology, and managerial skills. The acquisition of foreign brands definitely supports market growth and positive brand reputation and image.

### **2.2.5 Advantages of Co-branding Strategy**

Co-branding brings substantial benefits, it: (1) expands and leverages customer base (2) fosters profitability (3) extends production lines and reaches the latent needs of customers (4) strengthens competitive position (5) enhances brand image (6) creates new customer-perceived value, and (7) yields operational efficiency and reduces cost. (Chang, 2009)

The idea behind co-branding is to expand market share, increase revenue streams, and improve competitive advantages through customer awareness. (Chang, 2009)

However, little attention has been paid to co-branding as a successful and significant strategy to support brand awareness, perceived quality and brand image. This research is exploring how such strategy could reflect on the brand equity of Chinese brands.

### **2.2.6 Disadvantages of Co-branding Strategy**

Though co-branding strategies involve key advantages – supporting the constituent brands in leveraging their market position and brand image – there are also some disadvantages. Negative associations may be attributed to partner brands. Combining two brands may also give rise to conflicting brand meanings and wrong positioning. (Chang, 2009)

According to Chang (2009) there are three levels of co-branding: market share, brand extension, and global branding:

Level 1 incorporates joining with another company to penetrate the market.

Level 2 is extending the brand based on the company's current market share.

Level 3 is achieving a global strategy by bringing together the two brands.

The auto industry has been and will continue to be a visionary and aspirational pillar industry for the Chinese government. The Chinese automotive industry is in the spotlight and is the focus of this research.

### **2.3 Summary of the Marketing Mix & Brand Equity Section**

The Marketing concept is a philosophy that makes the customer, and the satisfaction of his or her needs, the focal point of all business activities. It is the whole business seen from the point of view of the final result, that is, from the customer's point of view.

As previously discussed, numerous dimensions precede brand equity. For instance, any marketing action could affect brand equity since it signifies the effect of accumulated marketing investments in the brand. According to Yoo, Donthu, & Lee (2000): “Any marketing effort will be positively related to brand equity when it leads to a more favourable behavioural response to the focal product than to the equivalent unbranded product.”

In summary, the marketing mix elements are the core foundation for any brand building attempts. Although there has been great interest in the concept of brand equity, little conceptual development has signified which marketing elements or activities most support the building of brand equity. Researchers have focused on exploring the brand equity concept, rather than its sources and development, therefore this study has focused on exploring the antecedents of Chinese brand equity.

## **CHAPTER THREE: BACKGROUND OF THE CASE**

This chapter is composed of three sections: the need for Chinese to build brands; COO historical background and its effect on brand equity; and finally the evolution of the Chinese automotive industry. The two case-studies under development – GEELY and BYD – will not be explored in this chapter, but will be examined deeply in the analysis chapter to allow for better interpretation and analysis.

### **SECTION 1: CHINESE BRAND BUILDING**

#### **3.1 The Need for Building Chinese Brands**

Why do Chinese companies need to build brands? What changes have occurred to change the theatre of the business game that will drive a shift in the Chinese mindset for branding both locally and globally?

Traditionally, Chinese companies had no strong reason or powerful rationale to market or brand their products and services globally. China's domestic potential provided tremendous opportunities for business owners to grow their businesses. However, the marketplace has changed, and Chinese companies are looking abroad to where profit margins are much higher. “(What Chinese Companies Must Do, 2012)” At the same time foreign companies are finding that the Chinese middle class consumer segment is growing, and the rise in living standards and financial means is creating a demand for higher quality products at premium prices. Ernst & Young “(Hitting the sweet spot, 2013)”

Competition from low-cost efficient countries such as Vietnam and Indonesia is forcing Chinese companies to adjust their low-cost strategy and search for a new strategic growth path.

Establishing a global brand will open up an array of opportunities for Chinese brands in new markets both locally and abroad. Over and above, it would provide a new horizon for price

premiums and protected margins, leading to further product development and creating a new barrier to entry against competitors. Chinese companies could acquire instant recognition through acquisitions, such as Lenovo's purchase of IBM's PC division in 2004, and GEELY's purchase of Volvo; or by cultivating their own brands, such as Galanz – a microwave manufacturer which has made a strong entry in the West. "(What Chinese Companies Must Do, 2012)"

Building Chinese global brands is controversial and challenging, since some foreign consumers especially elder groups still negatively perceive the "Made in China" label, which still signifies cheapness. Though many Chinese brands excel in high-quality products and advanced production technology, the spectre still lingers. While building global brands, Chinese companies must learn how to manage a positive image and reputation, both on the product level and on the corporate level.

For years China has dominated world manufacturing because of its abundance of low-cost labour. For long most Chinese companies have been content with the role of original-equipment manufacturer (OEM), delivering the world's biggest brands and retailers' private labels, with products ranging from toys to televisions. However, the Chinese government is now urging some of the country's biggest companies to sell branded products abroad, and many companies have their own reasons for establishing brands in developed countries. For instance, because the home market is extremely competitive and still focuses on competing on price, branded products can be more profitable than those of OEMs. Moreover, competing in foreign markets compels companies to innovate and improve, which in turn supports the development of a more positive brand image. Branding is making a unique contribution in this rapid economic growth. Compared with world-renowned brands, Chinese brand values still represent a relatively small proportion of market capitalisation. However, some top Chinese brands have enormous room for growth.

According to Interbrand, China Life already owns almost 50% of China's life insurance market, but only about 20% of the population is insured.

Business assumptions have changed dramatically since the late 1970s, leaving little alternative for Chinese companies but to significantly consider the impact of intangibles – such as management credibility, brand management, strategy execution, communication, innovation and human capital – on their growth and competitive strength. “(What Chinese Companies Must Do, 2012)”

### **3.2 A Dramatic Strategic Shift**

Although China has dominated the manufacturing industries for years with its low-cost strategy, the government is now pushing some of China’s biggest companies to sell global branded products. “(The Shifting Nature of Chinese Industry, 2007)” This is partially due to the extremely tough domestic competition putting constant pressure on prices, and the fact that branded products will allow for higher margins and more profits. Moreover, it is putting more pressure on Chinese companies to improve and innovate, which will in turn help the move away from the negative image of cheap products. “(What Chinese Companies Must Do, 2012)”

China’s economy is developing at an amazing rate. By 2030, roughly two-thirds of the world's middle class will be in the Asia Pacific region, largely in China, according to a report by Ernst & Young published in 2011. Currently at around 150 million people, the Chinese middle class is expected to reach 1 billion. As the most valuable asset for an enterprise, brand is making an irreplaceable contribution to this rapid economic growth. With an increasing per capita disposable income, and a wider range of goods and services from which to choose, brands are playing a more important role in the purchase process. And, although most consumers are still price-sensitive, Chinese brands are beginning to realize their great potential.

The strong growth of the Chinese economy and, therefore, the fast-growing purchasing power of consumers, are consistently increasing the demand for branded goods. In the past, brands were

primarily used to demonstrate social status, independently of whether the brands were genuine or not. However, Chinese consumers nowadays are becoming more brand-conscious. They understand that brands are not only about showing off but can also emit a useful signal of quality and are able to fulfil their users' increasing need for self-expression. As a consequence, Chinese consumers are looking for authentic brands that have their roots not only abroad but also in their domestic market. On the supply side, Chinese companies increasingly understand the growing importance brands have for the modern Chinese consumer. As a consequence, they are improving their quality management and investing significant resources for professional strategic brand management. "(The Rise of Chinese Brand Equity, 2012)"

Based on these developments a study, conducted in 2012 by the Swiss brand valuation consultancy firm BV4, compared the brand equity of the 20 most powerful consumer goods brands in the US, Europe, and China.

The main focus of the study is determining and explaining the most important value drivers that will support the future positive development of Chinese brand equity. These value drivers are analyzed from three different perspectives: the consumers', the companies', and that of the Chinese government. The study compared the 20 most powerful brands for each of the three regions/countries. Subsequently, the monetary brand values of the selected brands were measured for the past (2007), the present (2012) and the future (2025). The methodology used is grounded scientifically and within the business context by using the Discounted Brand Free Cash Flow approach to assess the financial brand values. Over and above, the opinion of economic experts was surveyed regarding the development of Chinese brands and the drivers of the development. The results revealed that in 2007 Chinese brands still had negative brand associations, such as low-priced, low-quality products.

Presently, Chinese companies are achieving higher brand awareness in both domestic and global markets. One important factor driving Chinese brand equity is that Chinese companies have started to recognize the importance of quality issues and how they affect their brand reputation.

It is predicted that the forecasted growth of China's economy, and the exponential growth of consumer spending, will result in increased brand consciousness that will in return positively affect Chinese brand equity. "(The Rise of Chinese Brand Equity, 2012)" If Chinese companies continue to expand their knowledge about brand-oriented consumer needs it will in turn reflect on their brand equity in the future. Moreover, the government is prioritizing growing Chinese brand equity by developing intellectual property laws and fostering the intangible values created by Chinese companies.

Today there are several best practice examples of Chinese brands that have followed a need-oriented brand strategy and successfully positioned themselves in the domestic and global markets; namely Hawaieii, Lenovo, and Haier, among others.

Three strong factors are driving the development of Chinese brand equity: the new brand consciousness and behaviour of Chinese consumers; the change in the attitude of Chinese companies toward brand management; and the strong support of the Chinese government in building strong brands that can compete globally.

Based on these factors, we can assume that Chinese brand values will keep growing at a faster pace when compared with well-established brands in developed markets.

All these factors will create a significant shift in current Chinese brand equity and the growth of the Chinese brand equity in the near future. Consequently the future of Chinese brand equity looks very promising, as long as Chinese companies appreciate the significant value of strong brands, and effectively adjust their brands and products to the demands and needs of sophisticated consumers.

### **3.3 Factors Driving Chinese Brand Building**

#### **3.3.1 Strong Economic Growth ... the Core of a Prospering Society**

By 2010, China's economy was three times larger than Japan's and developing into the second largest economy after the US. Research conducted by McKinsey in 2012 indicates that China's GDP will continue to grow, attaining an annual growth rate of 7.9% in the next 10 years. The forecasted estimated annual growth for the same period is 2.8% and 1.7% respectively greater than the US and Germany. According to the McKinsey study, the per capita disposable income of urban consumers will double from US\$4,000 to US\$8,000 between 2010 and 2020. This will align China with the current standard of living in South Korea, but it will still lag behind countries such as the US with a disposable income of about US\$35,000.

#### **3.3.2 The Rise of the Middle Class is Steering Consumer Spending**

McKinsey forecasts that the number of middle-class consumers will expand radically in the coming years, and that these so-called mainstream consumers will represent 51% of the urban population by 2020. This group will eventually set the standards of living. They will be able to afford family cars and luxury goods, and will increasingly call for brand-driven purchasing behaviour. This segment will consist of 167 million households or almost 400 million people by 2020. This rapid growth would have a strong impact on the future brand equity of Chinese brands. "(Meet the 2020 Chinese Consumer, 2012)"

#### **3.3.3 The Emergent Role of Brands**

Originally, Chinese consumers' purchasing behaviour was primarily a way of showing off. This is no longer the case. Chinese consumers are now looking for authentic brands and products, and are trying to move away from the perception of fake products. "(What Chinese Companies Must Do, 2012)"



This growing purchase behaviour of Chinese consumers means they have more inclination towards brands. According to a study conducted in 2007 by TNS, one of the world's leading market research companies, 60% of polled Chinese consumers said that they use luxury goods to express social status, and 65% stated that people who own luxury goods are "successful". For Chinese consumers another motivation for buying and owning branded products was revealed to be self-reward.

Though the supply of fake products in China is still a challenge, consumers are much less likely to fulfil their status needs with them, at least within the Chinese middle class consumers segment. According to Claudio Mazzucchelli, Head of Swiss Business Hub China, Federal Department of Foreign Affairs: "The status symbol given by known brands is an important factor in Chinese life (at least in the middle- and high-class). And Chinese prefer original products rather than fakes. They also want the quality and they know that fake products often lack in quality."

These findings are consistent with another study conducted by the consultancy firm Bain in 2012, which concluded that "demand for counterfeit products is decreasing fast". Moreover, another study by McKinsey in 2012 has found that consumers' readiness to buy fake jewellery is decreasing: the percentage of polled consumers' inclination to buy fake jewellery decreased from 31% in 2008 to 12% in 2012.

Various indicators underscore the growing importance of brands in Chinese consumers' purchasing behaviour.

#### **3.3.4 Rising Demand for Authentic Brands**

Wealthy Chinese consumers who travel frequently are buying trusted genuine brands from Europe to assure their authenticity. A survey conducted by graduate students in Beijing, in 2011, revealed that respondents defined a brand as being consumer-focused and reliable. Moreover, 100% of the respondents considered quality first when assessing brands. In their opinion, brands

must fulfil a certain promise associated with the brand. Moreover, consumers also expect a brand to be authentic, reliable and trustworthy. Chinese consumers look to brands as carriers of lifestyle and to fulfil their dreams. For Chinese consumers, a brand must offer an emotional experience in addition to delivering high-quality functions, trust and identity.

The new inclination towards brands addressing individual needs was also mentioned in a study conducted in 2007, where it was revealed that in China the consumption of luxury branded goods was very much item-driven; i.e. consumers search for the latest collection or products. Nevertheless, the study forecast that Chinese consumers, similar to consumers in more developed countries, would require experience or goods that appeal to their personal tastes.

The above shift in Chinese consumers' need to express their individuality and status by purchasing brands seems to confirm the actual and growing demand for authentic brands that deliver emotional experiences. It is as well confirming the dramatic shift in the mindset of Chinese consumer seeking more branded authentic products.

### **3.3.5 Social-Cultural Dynamics Propelling Brand Affinity<sup>1</sup>**

Chinese culture is characterized by strong collective behaviours and depends greatly on informal communication among peers. Typically information communication relies heavily on word of mouth, and knowledge of brands and products is quickly propagated within informal channels. Peer group pressure is very significant and inferior peers try to improve their status by buying brands recommended by higher status members of the peer group.

Another important dimension within Chinese culture is a strong sense of national pride.

When pro-Tibetan protests took place during the Paris leg of the Beijing Olympic torch relay in 2008, Chinese consumers boycotted French brands such as Carrefour and Citroen, and some reports said that sales of French cars dropped in China by 25% during the Olympic Games.

Chinese consumers' sense of national pride, and their affection towards their country and culture, reflects an important element in branding that domestic companies could explore when creating local brands.

Moreover, Chinese consumers are digesting advertising messages and changing their attitudes based on them. For instance, until recently Chinese consumers tended to buy chocolate exclusively as a gift for others. However, Mars repositioned the Dove Chocolate bar by using Chinese animated consumers urging consumers to pamper themselves and buy chocolate for their own pleasure. Today, Mars is the most successful producer of chocolate in China. "(The Rise of Chinese Brand Equity, 2012)"

The one-child policy, initiated in 1978 by the Chinese government, has also had a significant effect on consumer buying behaviour. Chinese women have become more independent, have a high purchasing power, and are highly represented in the workforce: 67% compared to 48% in Japan and 58% in the US (values from 2009). Given this development, - combined with the need

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<sup>1</sup> See The Rise of Chinese Brand Equity Brand Report, by BV4 Brand Valuation Experts, 2012.

for showing off and with women's high attraction to brands – it can be assumed that women's purchasing behaviour will become even more brand-driven in the future. This is then another socio-cultural element that will notably advance Chinese inclination to buy branded products and will reflect on Chinese brand equity development.

New Chinese expectations are coming to the surface, paving the way to a completely new trend of brand-conscious consumers. The exponential growth of the Chinese economy has increased the living standards of middle- and high-class consumers in China. Therefore, Chinese consumers have shifted from being cost-conscious to being brand-conscious, and their affinity to brands will increase. If Chinese companies can capture this new trend, and learn its signals quickly, changes they make could shift the curve tremendously towards a new brand building era in China, reflecting positively on Chinese brand equity.

Chinese brands are on the rise but are not there yet. Despite their volatility, Interbrand has identified a number of positive trends for Chinese brands; the upsurge of market-oriented brands, globalization, the shift from following to creating, knowledge-intense and luxury brands, shift from special advantage to brand equity, and moving from best-in-class to world-class.

Analysing the new trends, we can foresee that Chinese brand equity is pursuing a new strategic shift by envisioning the value of brand building as a new path of well founded competitive advantage.

*The upsurge of market-oriented brands;* According to Interbrand, from 2007 to 2011, brands such as Baidu, Haier and Li-Ning worked hard to achieve a strong position, becoming the fastest-growing brands in terms of brand value, with Compound Annual Growth Rates (CAGR) of 84%, 68% and 39% respectively. Recently, several highly market-oriented, viable brands have reached the list. These brands have managed to develop a completely different mindset. They have invested heavily in innovation and brand-building in their industry, by appointing chief marketing

officers, establishing marketing departments, increasing brand-building budgets, and tracking results. The sports brand Li-Ning is now competing with both Nike and Adidas in the Chinese market. The Chinese search engine Baidu has outperformed Google in China, with better localization, brand communication and understanding of the Chinese language. In 2006, Baidu's market share had risen to 60%, winning the lead position in the Chinese market. Li-Ning and Baidu are investing greatly in research and market understanding, carefully accumulating brand value, and taking their places alongside China's top enterprises.

Globalization; Lenovo is regarded as the brand that is putting China on the right track. The emergence of multinational brands in China put positive pressure on Chinese brands to invest in product development, business models, and consumer demands. Brands such as Haier, Lenovo, TCL, and Huawei are now ready to compete on a global stage. Lenovo's merger with IBM's PC business and its sponsorship of the 2008 Olympics are leading to global **brand awareness**. According to a survey conducted by Interbrand in 2007 among 700 professionals, Lenovo's aided **brand awareness** had reached 59%, ranking it first among Chinese brands, and already exceeding some international brands.

From following to creating; Chinese brands are moving away from following, copying, and learning from competition, to creating their own paths. For a long time Chinese brands were associated with copying foreign brands, examples being in the auto industry, telecommunications, home appliances, toys etc. Now they are searching for their own brand principles in China and creating localized best practices. Chinese brands are coming from a well-rooted culture with a classical heritage. They are far powerfully capitalizing on building corporate brands that stem from heritage and credibility. In contrast, western brands strategically depend on building standalone brands through product brand personality and differentiation.

Few knowledge-intensive and luxury brands; Interbrand's list includes few knowledge-intensive brands, such as Microsoft, Google and Intel. The same applies to luxury brands like Rolex and Louis Vuitton. Although brands like Lenovo or Moutai and Changyu are making good headway they still have long way to go. With the exponential growth of Chinese purchasing power, Chinese brands can take up a different position and build barriers to entry by investing in R&D and building brand equity. These Chinese brands have a futuristic vision that should focus on Chinese culture and create lifestyle brand symbols.

From special advantage to brand equity; For a long time Chinese brands depended on government policies and regulations to stir profit and protect their heritage of market share from competition. Today, the market is changing; the government is deregulating many policies and consumers are looking for differentiated products. Those enterprises that rely on their scale and heritage alone will not survive for long, but one of the best ways of surviving is turning these advantages into brand equity. Lenovo is setting an example for many Chinese brands. Prior to the acquisition of IBM's PC division, Lenovo was practically a domestic company, with 90% of its revenue originating from China (Quelch & Knoop, 2006); yet the acquisition formed part of Lenovo's strategy to institute a global brand beyond the boundaries of China.

Evolution from best-in-class to world-class; Interbrand's 2011 report reveals that brands have already become the new engines of growth for Chinese enterprises. The brand value of outstanding enterprises is on the rise as China's economy is growing, demonstrating an evolution in Chinese brands from best-in-class to world-class.

Nowadays, there are several best practice examples of Chinese brands that have followed a need-oriented brands that successfully managed to position themselves in the domestic and global markets such as Hawaeii, Lenovo, Haier, and many others. Three strong factors are driving the

development of Chinese brand equity; the new brand conscious and behaviour of Chinese consumers, the change in the attitude of Chinese companies toward brand management, and the strong support of the Chinese government in building strong Chinese brands that can compete globally.

Based on these factors, we can assume that Chinese brand equity will keep growing at a faster pace when compared with well established brands in developed markets.

All factors are making a significant shift in the Chinese brand equity, and the growth of the Chinese brand equity in the near future. Thus, making the future of Chinese brand equity looks much promising, as long as Chinese companies appreciate the significant value of strong and valuable brands and effectively adjust their brands and products to the demands and needs of sophisticated consumers.

## **SECTION 2: COUNTRY OF ORIGIN (COO) AND ITS EFFECT ON BRAND EQUITY**

It has been mentioned several times that a country's image has an impact on the perception and recognition of brands. For instance, when brands originate from better known countries, or from those that have a more positive image, it is easier for consumers to form associations with those brands. When consumer awareness of a country is high for economic, political, cultural or historical reasons, or when a brand conveys a positive image of the country and/or its values, favourable perceptions are created. Favourable perceptions about a country lead not only to favourable attitudes toward its products and brands (e.g. Leclerc et al., 1994; Gurhan-Canli and Maheswaran, 2000; Ahmed et al., 2002) but also to higher overall product and brand awareness and, in turn, enhanced brand recognition. The Country of Origin constitutes one of the antecedents of Chinese brand equity creation this research is investigating.

### **3.1 Chinese Country of Origin Label ... A Paradigm Shift**

Products labelled "Made in China" immediately bring to mind the notions of high-volume, low-quality, and low-price, because for years Chinese products reflected the country's overall strategy of competing on price and volume. For a long time this was accepted as normal and no attempts were made to change the perception. However, in the past 10 years, a new era of Chinese brands seems to have been on the rise, attempting to shift away from this negative COO syndrome by investing in building strong global brands.

This new shift makes marketers question why the Chinese are moving away from the low-price strategy and building their brands to compete on different attributes. A new understanding of the meanings of quality is rising and establishing its roots while playing a different competitive game.



Chinese companies across many sectors are moving very quickly towards building powerful brands. They are heading away from the price-sensitive market and towards building real value and creating demand for their brands by overcoming the negative connotations of COO and the Chinese label.

According to the rankings of Interbrand – the leading brand consultancy firm, which has pioneered research into the brand valuation model since 1984 – the brand value of outstanding Chinese enterprises is rising as China’s economy continues to grow; reflecting an evolution in Chinese brands from best-in-class to world-class.

### **3.2 Country of Origin and the Chinese Label**

The following explores the literature regarding country of origin effects on Chinese brands. The review is not intended to point to every paper written regarding COO over the last decade. Instead, the intent was to bring together information about the development of the overall COO paradigm in an environment in which the notion of COO has seen major changes, and its relation to and impact on Chinese brand value and brand equity is changing.

This section will draw attention to some of the relevant impactful studies on COO which constitutes one of the antecedents of Chinese brand equity.

Systematic research into the COO effect started with the publication of Schooler's (1965) influential article in the *Journal of Marketing Research*: "Product Bias in the Central American Common Market". Recently Papadopoulos and Heslop (1993) dedicated a whole book to the COO phenomenon.

According to a Meta-Analysis of Country-Of-Origin Effects – conducted by Robert A. Peterson and Alain J. P. Jolibert in 1995 – for the past three decades, the COO impact and effect on

buyers' perception, evaluation, and purchasing decisions has been extensively studied. They define COO as: the country of origin of a product, which is typically operationalized or communicated through the phrase "made in", is an extrinsic product cue – an intangible product attribute – that is distinct from a physical product characteristic or intrinsic attribute. As such, a country-of-origin cue is similar to price, brand name, or warranty in that none of these directly bear on product performance.

Although many dependent variables have been studied in COO, according to Peterson and Jolibert (1995) two broad categories have captured the majority of responses: quality/reliability perceptions and purchase intentions. Their investigation demonstrated that the effect sizes for quality/reliability perceptions have been consistently larger than the effect sizes for purchase intentions, which substantiates other recent empirical research (e.g., Lim, Darley and Summers, 1994).

Moreover, prior research such as (Fishbein, 1963) suggests that typically the information cue effect is less influential than the direct evaluation and personal commitment involved in purchase intentions. This again suggests that perception about quality and reliability has still higher effect on decision making when the consumer has purchase intentions other than just those factors. More specifically, the COO construct can be split into three main dimensions, based on the impact of the evaluation of product design and product quality (Paul Chao, 1998). Chao identified the impact of the Country of Assembly (CA), Country of Parts (CP) and the Country of Design (CD) as having different impacts on consumers' evaluations of product design and quality. He indicated that the effects of CA and CP on product quality perceptions are significant.

His results reveal that CA and CP only affect the product quality perception, whereas CD only affects the design quality perception. CP moderates the design quality effect when the product is indicated as having been assembled in, say, Mexico rather than the United States.

Chao's study refers to other dimensions that moderate and impact on product quality perception. He stated that product warranty can overcome the COO effect for a poorly perceived country stereotype in consumer product evaluations. (Schooler, Wildt, and Jones, 1987; Thorelli, Lim, and Ye, 1989) He added that, according to (Cordell, 1992; Leclerc, Schmitt, and Dubé, 1994), brand reputations have also been shown to achieve a comparable consequence. For instance, a Sony stereo assembled in Malaysia may not be viewed quite as favourably by consumers as a Sony stereo made in Japan.

Comparing the effect size of COO for both the United States and Mexico, Chao (1998) concluded that the main effects of CA and the CP on product quality perception are significant and in the expected direction. When the product was shown to be assembled in the US the product quality was rated higher than when assembled in Mexico. Equally, when the parts were shown to be from the US it was rated higher than when from Mexico. He also confirmed that the effect of CD is not significant. These results appear to be consistent with those reported by Sauer, Young, and Unnava (1991). When they tested attitudes and purchase intentions as the dependent variables for a television set they also failed to detect any significant effect between CA and CD.

However, in a study conducted into industrial products, Sadrudin Ahmed et al. (1994) showed that CD is a more important cue in organizational purchase decisions than CA and brand name.

They added that the greater importance attached to CD by purchasing managers, as compared to household buyers, is another interesting difference. In previous household studies [2, 13], CD

weighed the same as CA. Also their results showed that COO is an essential extrinsic cue used by purchasing managers, especially when judging the quality of a technologically complex product.

For decades, research and studies have led to one evident conclusion: a product's country of origin can affect consumers' judgments of the product. Only recently has that conclusion changed. With the change in international markets and the introduction of new business models, researchers are reaching new results regarding the salience of COO information and its impact on quality perceptions and purchase intentions; as well as consumers' real levels of knowledge concerning the origins of the brands they purchase. (Samiee, Shimp, and Sharma, 2005; Chen, 2004; Thakor and Lavack, 2003)

Some of these international changes are listed by Julie M. Pharr (2005):

- (1) The rapid growth of the World Trade Organization.
- (2) US membership of NAFTA, coupled with the increasing importance of trade blocs in governing trade in all major regions of the world.
- (3) Rules of origin changes issued by the US Customs Service to govern the classification of import products.
- (4) Worldwide acceptance of the Internet as a medium of commerce irrespective of country boundaries.

Since these changes, hybrid products with multiple country affiliations have proliferated in durable goods categories like automobiles and electronics (Pharr, 2006).

According to Pharr (2005) researchers have focused on either endogenous or exogenous sources to explain the effect of COO. The following presents some of the evidence for endogenous COO antecedents.

- Orth and Firbasova (2003) and Balabanis and Diamantopoulos (2004) found consumer ethnocentrism – the belief that one's own culture is superior to other cultures – to be a significant predictor of COO assessment.
- Gurhan-Canli and Maheswaran (2000) found the cultural orientation dimension of 'individualism/collectivism' to considerably explain COO assessment when testing American versus Japanese consumers.
- LaRoche et. al. (2003) found that consumers' sub-cultural differences based on geographic region and language significantly affect the weight of COO in product evaluations.
- Klein, Ettenson, and Morris (1998) found that consumers' country-specific "animosity" could significantly explain variations in COO assessment.
- Insch and McBride (2004) suggested differences in "power distance" – the degree to which consumers perceive and affirm social inequalities between people in society through their interactions and relationships – explain differences in COO assessment among American and Mexican consumers evaluating the same products.
- Liu and Johnson (2005) found "country stereotypes" to significantly influence COO assessment, and that such stereotypes appear to be spontaneously activated by the mere presence of COO information in the external environment, without participants' intentions to use the information when forming product or country judgments.

The research into exogenous antecedents is limited. Amongst possible exogenous variables, a country's level of economic development was tested as a determinant of COO assessment. Verlegh and Steenkamp's (1999) results showed that differences in economic development had a significant impact on COO assessment but participation in multinational production did not.

A review of studies examining possible moderators of COO's effect on product evaluations yielded the following findings:

- Some studies found COO to be insignificant in explaining either product evaluations or purchase intentions when measured along with the extrinsic cues of price and brand name. (Hui and Zhou, 2002; Ahmed et al., 2004; Lin and Kao, 2004)
- In contrast, Teas and Argawal (2000) found COO to significantly directly affect product quality perceptions alongside the extrinsic product cues of price and brand name. While price showed the strongest influence on quality perceptions, brand name and COO were virtually identical in the amount of influence each exerted and both were substantial.
- In testing cognitive effects, Hui and Zhou (2002) found purchase intentions were directly influenced by brand name and price, but not by COO. The influence of COO instead occurred through a construct called “perceived product value”.

We can assume that the extent to which COO can impact quality perceptions and purchase intentions is not definitely confirmed, and changes according to different contexts.

Findings from these studies suggest that COO information interacts with price to significantly influence product quality evaluations only when the cues are consistent. When COO is negative or weak, high-price cues have no substantial impact on product quality perceptions. Similarly, when price is low, strong positive COO information has no substantial product quality effect. When tested together the two cues had to be consistent to produce a significant effect.

While brand name and price have conclusively been two of the most popular cues investigated as potential moderators of COO effects, the importance of holistic brand-related constructs (e.g. brand image) in today's global environment has paved the way to various studies thoroughly examining brand as a moderator of COO effects.

The effects of brand equity and brand building against the negative effects of COO have been extensively studied, affirming the value of brand-related constructs as follows:

- Brand image can act as a safeguard against the effects of negative COO evaluations, according to Jo, Nakamoto, and Nelson (2003). Specifically, brands with initial higher quality images were subject to a smaller degree of “quality discounting” (negative changes in quality perceptions) even when coupled with countries with a reputation for lower quality or more negative COO evaluations than those with lower initial quality images.
- Chao et.al. (2005) found the use of foreign brand names (names in a different language from that of the subjects evaluating the product) diminished COO product evaluations.
- Lin and Kao (2004) further reinforced the concept of brand salience with provocative evidence that COO evaluations operate through a construct labelled “brand equity”, rather than directly on either product evaluations or purchase intentions.

According to Julie M. Pharr (2005), these findings suggest that COO evaluations may indeed operate through a brand-based construct rather than directly on product quality evaluations or purchase intentions.

Several studies show that consumers' involvement level (high versus low) and type (situational versus enduring) moderates the effect of COO on product quality evaluations. (Gurhan-Canli and Maheswaran, 2000b; Ahmed et al., 2004; Lee, Yun, and Lee 2005) As such, when purchasing a high involvement and enduring product, the impact of COO, whether positive or negative, is significant.

As established in pre-1995 research, and again in studies from the last decade, the product itself apparently has a great role in determining the extent to which a COO effect will materialize. Moreover, studies illustrate that both extrinsic and intrinsic product cues have the ability to moderate COO's impact. This counteracts the idea of a general COO effect and proposes that product-related factors should be included as moderators of the COO effect. Moreover, holistic

brand constructs such as brand image or brand equity moderate the effects of COO on product evaluations and purchase intentions.

The impact of price information as a moderator in relation to COO information is not well understood. Some studies suggest price information misleads COO information when both are known to buyers (Ahmed et al., 2004; Lin and Kao, 2004). Others propose that price and COO interact to affect consumers' product quality evaluations and that neither variable produces significant singular influence when presented with the other (Miyazaki, Grewal, and Goodstein, 2005). Still others suggest that, while price may directly affect purchase intentions, COO does not – albeit COO can affect the same consumers' perceptions of product value. (Hui and Zhou, 2002) This has led researchers to conclude that the impact of COO is more likely to function through other variables rather than directly on purchase intentions.

In an experimental design that considered the immediate impacts of ethnocentrism, brand name, product quality, and COO on purchase intentions, Pecotich and Rosenthal (2001) found that, while there was a strong significant main effect due to product quality, the other effects were not significant. In particular, there was no evidence of a main effect on purchase intentions due to COO.

Lin and Kao (2004) found that the influence of COO operated not through product perceptions but through brand equity, which in turn had a strong direct effect on both product perceptions and purchase intentions.

Cervino, Sánchez, and Cubillo (2005) confirmed through structural equations that COO evaluations influence perceived value (as noted by Hui and Zhou, in 2002) in addition to a new construct called "brand success". Brand success consequently affected purchase intentions, while there was no direct effect of COO evaluations on purchase intentions.



In recent studies where brand origin information had to be acquired at the point of purchase through active search or accessed from memory, the role of COO in brand choice was nominal at most. (Samiee, Shimp, and Sharma, 2005; Liefeld, 2004; Madden, 2003) In these recent studies, a new construct called "brand origin recognition accuracy" – derived from a subject's "international experience" (a composite measure based partly on the extent to which a person had travelled abroad) – became the primary selective variable in product preference. It was able to significantly predict the subjects' purchase intentions. The existence of brand origin recognition accuracy suggests researchers may be able to bypass traditional COO evaluations when investigating, or attempting to predict, consumers' actual purchase behaviour.

In summary: the above mentioned studies confirm Peterson and Jolibert's suspicions that COO evaluations have little or no direct impact on purchase intentions. Julie M. Pharr (2005) has depicted the importance of brand-based constructs in moderating COO evaluations; showing that the influence of COO evaluations occurs through product evaluations, perceived product value, brand equity, or brand image, and not directly on purchase intentions.

Finally, Pharr (2005) states: "If a majority of today's consumers are not using COO information as a decision diagnostic, it would appear that either past research has inflated the influence that country of origin has on consumers' product judgments and behaviour (by using experimentally manipulated COO cues in laboratory settings) or that the construct is subject to decreased salience in today's era of global brands".

## **SECTION 3: THE CHINESE AUTOMOBILE INDUSTRY – GIANT ON THE RISE**

The following section will briefly examine the evolution of the Chinese automobile industry from 1950 to date. It will highlight the strategic milestones driving the change towards the emergence of Chinese self-brands. It will also shed light on two other strategic Asian auto-industries (the Japanese and North Korean) in an attempt to draw Chinese comparisons with their brand building experiences.

### **3.1 The Evolution of the Chinese Automobile Industry<sup>2</sup>**

The history of China's automobile industry goes back further than the reforms of 1978, when it focused mainly on trucks. In the 30 years prior to reform, central planning shaped the pattern of industrial development in China. The seventh five-year plan of 1986 can be viewed as a turning point for the evolution of post-reform industrial policy. In 1988, the government established the Bureau of Industrial Policy and in 1994 it issued a policy framework to set goals for full industrial structure development, which continued up till the 1990s.

In the early 1950s China set up its first auto plant – the First Auto Works (FAW), in Manchuria – using Russian technology to produce trucks and causing a rise in auto assembly operations. In the late 1960s it established the Second Auto Works (SAW) in the mountains near Wuhan in central China. These investments were reproductions of the Soviet model, with each factor vertically integrated into parts production. Nevertheless, China was able to build a self-sufficient truck industry powerful enough to hold off foreign competition.

In the 1980s there was a policy debate in the Machinery Industry Ministry (MIM), the ministry in charge of the automobile industry, about whether to develop passenger cars. The policy direction decided upon concentrated on “a high starting point, mass production, and specialization”.

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<sup>2</sup> See “How the Chinese government promoted a global automobile industry”, Wan-Wen Chu, (2011)

Recognizing that the auto industry lacked a technological aspect, China opted for the joint venture route to fulfil the need for technology transfer.

In 1983, an agreement was signed with AMC to set up the Beijing Jeep Company. This was followed by agreements between the Shanghai Auto Industry Corporation (SAIC) and VW (forming SVW) in 1984; and Guangzhou-Peugeot in 1985. The Tianjin Auto Works purchased Daihatsu's Charade technology in 1986. In 1992, FAW-VW was established, and SAIC and Citroen also set up a joint venture. The Guangzhou-Peugeot venture was unsuccessful and Peugeot pulled out in 1997.

Due to protectionist policies, high tariffs and entry restrictions, these joint venture companies priced their cars above international levels and benefited from high profits. In 1997, while preparing for entry into the World Trade Organization (WTO), the Chinese government permitted more foreign investors on the condition that they bring in the latest technology. These investors included Shanghai-GM and Guangzhou-Honda. Consequently, competition became tougher with new car models and updated technology. In 2000, China revised its foreign business laws and eased entry restrictions. The demand for cars originally derived from official usage, which required medium-sized models and was not very price-sensitive. From the 1990s there was a shift to the individual consumer, with increased personal wealth creating a demand for lower priced vehicles. By 2000 the individual consumer constituted 45% of the total market.

As late as 1985, China was only producing a total of 5,200 passenger cars per annum. During the pre-reform era, government officials were discouraged from using private vehicles. The scarcity of tourism and lack of disposable income among Chinese citizens led to a low demand for taxis and other passenger cars as means of local transportation. However, opening up to international tourism and FDI in the early 1980s, and the flexibility of government policies, led to an increased

demand for passenger cars. As domestic production could not meet demand, import totals rose dramatically, despite a 260% import duty on foreign vehicles.

The share of cars in total vehicle production in China climbed from virtually zero at the beginning of the industrial reform period to over half in 2006. To conclude: the changes in China's vehicle industry in the post-reform period mainly came from the passenger car sector. They have made it the fastest growing sector in recent years. Therefore, the focus of this research is on China's passenger cars.

### **3.2 The Emergence of Chinese Self-brands<sup>3</sup>**

As previously stated, the Chinese government adopted a joint venture strategy to induce technology and support the growth of the industry in China. In the late 1990s, as growth in mature worldwide automobile markets began to stagnate, China's automobile market began to take off. In 2006, China became the third largest producer of motor vehicles; surpassing Germany and only just behind Japan and the US. In January 2009, as the global recession intensified and the American auto industry was on the edge of bankruptcy, China overtook the US to become the world's largest auto market based on monthly sales.

From 2001, local automobile firms started to appear in China, including the state-owned Hafei and Geely, and the privately owned GEELY, BYD, and Great Wall. These had absorbed a quarter of the car market by 2006. (Chang, 2009)

Car production in China grew by an average of 45% per year from 2002 to 2007; from 1 million vehicles produced per annum in 2002, rising quickly to almost 5 million in 2007. In 2009, China produced 13.79 million automobiles, out of which 8 million were passenger cars and 3.41 million commercial vehicles; overtaking the US as the world's largest automobile producer by volume. In

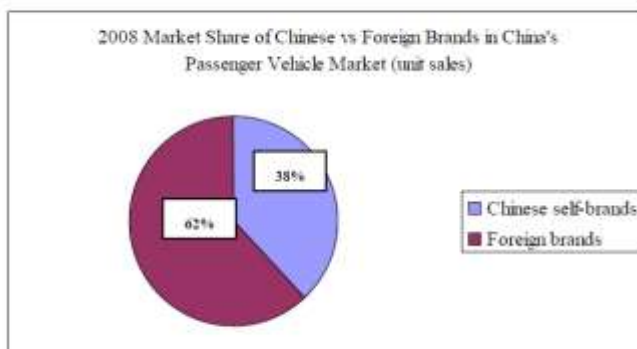
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<sup>3</sup> See Developmental Strategies in a Global Economy, Crystal Chang (2009)

2010, both sales and production reached 18 million units, with 13.76 million passenger cars produced. China recorded historic figures never achieved by any other nation.

These Chinese self-brands were not co-developed with, or purchased from, leading multinational automotive car manufacturers, but were originally established by entrepreneurial Chinese automakers.

Figure 3.1 demonstrates the market share of Chinese self-branded vehicles versus foreign brands, with the Chinese self-branded market share reaching 38% in 2008.



**Figure 3.1: Chinese Self-brands vs. Foreign Brands in Chinese Auto Market – Source: Automotive News & JATO Dynamics (2009)**

### **3.3 Green Technology Evolvment<sup>4</sup>**

On April 18th, 2012, the Chinese State Council issued the “Energy-Saving and New Energy Vehicle Development Plan”. This required all passenger vehicles’ average fuel consumptions to decrease to 6.9l/100km by 2015 and 5.0l by 2020. With such regulation the development of new energy vehicles is sure to accelerate in China. “(Best Pinpai Practices in China Automotive, 2012)”

A new study entitled “Electrification Roadmap” forecasts that there will be at least 14 million electric vehicles on US roads by 2020, and that Electric Vehicles (EVs) could account for 75% of

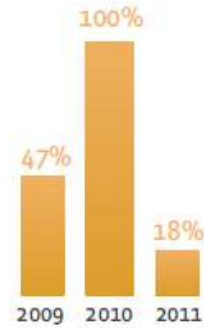
<sup>4</sup> See Best Pinpai Practices in China Automotive, 2012

all light-duty miles driven by 2040. The study is sponsored by Nissan, FedEx, Coda Automotive, and Coulomb Technologies.

In the 1980s, there were some advantages to having few passenger cars in China, such as low levels of urban air pollution. Today, the situation has changed. China is now a leading source of air pollution and since 2005 has been the world's second-largest consumer of oil.

The one constant in that time was that the Chinese did not invest much in advanced technology and depended greatly on their foreign partners. However, it is forecasted that if the Chinese manage to strategically shift gear and move into green technology, such as more energy-efficient cleaner cars, it will bring an outstanding opportunity for their industrial growth. It would in fact affect the brand building of the Chinese auto industry tremendously. Motor vehicle oil consumption in China is currently one-tenth of that in the United States, greenhouse-gas emissions from automobiles are still rather humble, and the increase of urban air pollution can be checked through pollution control measures. During the 1990s, sales in new automobiles grew on average 27% annually, doubling the number of passenger vehicles on the road every two-and-a-half years.

Unlike in Western markets, most Chinese consumers are buying their first car. However, figures do demonstrate a slight change in consumer purchases, with 76% being first-time buyers in 2010 and 73.3% in 2011; as presented in Figure 3.2. This drop signifies that Chinese consumers are moving to the next stage of buying their second or third car. Moreover, the SUV segment continues to grow with increasing brand competition; as illustrated in Figure 3.3.



**Figure 3.2: Rate of Chinese First-time Buyers**

**Figure 3.3: Growth Rate of SUV Segment in China**

In general emerging markets have become the largest auto markets since 2009; as illustrated in Figure 3.4. “(Best Pinpai Practices in China Automotive, 2012)”



Source: Historic data from Goldman Sachs Research. future sales based on Goldman Sachs projections.

**Figure 3.4: Emerging Markets Sales versus Developed Markets**

The emergence of industrial capacity and the evolution of the automotive industry in China did not take into consideration the importance of building strong brands. On the contrary, the development of the industry, and the capacity and resources of China, led to following the OEM manufacturing strategy, and high volume spread. Brand development was not a strategy that aligned with the initial development and the competitive advantage of the Chinese. However, as mentioned before, a paradigm shift has occurred for several reasons, directing the Chinese

companies towards a completely different strategy and business model, including the proper management of their brands and the need to build brand equity.

A recent report from the Chinese Association of Automobile Manufacturers (CAAM) indicates that China's self-branded passenger cars had a sales volume of 6.11 million vehicles in 2011 – down 5.42% from the year before – accounting for 42.23% of total passenger car sales. Besides a decline in sales and a shrinking market share, local Chinese brands also face branding challenges; therefore, building strong brand equity is an indispensable survival strategy.

### **3.4 The Japanese Automotive Industry<sup>5</sup>**

For the purpose of the study, it was important to shed light on the automotive industry development of two countries that successfully managed to find their path to build their own brands. In the following section the researcher will explore in brief the evolution of the Japanese and North Korean automotive industry.

Both Ford and General Motors (GM) saw the potential of Japan as a rewarding market. Ford established Ford Motors Japan in Yokohama in 1925 and began local assembly and sales (from June that year) of Model Ts. Similarly, GM established GM Japan in Osaka in January 1927 and started local assembly and sales (from April that year) of Chevrolet. So, in general, the vehicles built in Japan before World War II were mostly based on European and American models.

From the mid-1920s, the Japanese Ministry of Commerce and Industry and the Ministry of War envisioned the automobile manufacturing as a "comprehensive" industry, and a driving force for industrial development. As such the government empowered the automobile industry to assume a key position in the development of Japan's industrial infrastructure.

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<sup>5</sup> See A Comparative Study of Automobile Industry Between Japan & Korea”, 2004



Between 1925 and 1936, the US Big Three Japanese subsidiaries (General Motors, Ford, and Chrysler) produced a total of 208,967 vehicles, compared to the domestic producers' total of 12,127 vehicles. In 1936, when the Japanese government passed the Automobile Manufacturing Industry Law with the intention of promoting the domestic auto industry, the result halted the new Ford plant in Yokohama, which was set to establish Japan as a major exporter. This affected the production of cars and shifted the focus to truck production. “(A Comparative Study of Automobile Industry Between Japan & Korea, 2004)”

Between 1930 and 1940, a total of 284,568 motor vehicles (cars, trucks and buses) were produced. Most were supplied to the military and government authorities. This period was a disappointment for the automobile manufacturers, forcing them to put on hold their dreams of producing high quality passenger cars for almost 20 years.

In its pursuit of supporting the automotive industry, the Ministry of Commerce and Industry introduced performance tests in 1947, and the Road Vehicle Act was passed in 1951 for both domestic and imported vehicles. Both measures played a significant role in improving the quality of domestically produced vehicles.

### **3.4.1 Technological Tie-Ups with Foreign Manufacturers**

Automobile manufacturers began to focus on developing cars that would meet international standards and on implementing mass production systems that were not possible before the war. This was partially achieved by tying up with foreign manufacturers to gain technological know-how. In May 1953, Nissan began selling the first Austin A40 vehicles assembled in Japan. It started complete domestic production of the car in May 1956. Isuzu started complete domestic production of the Hillman in September 1957 and Hino launched a completely domestically

produced Renault. Mitsubishi did the same by producing a Jeep, as of June 1956, by tying-up with Willys-Overland.

However, other industry players preferred a different approach. Toyota and Fuji Seimitsu used their own technologies to independently develop their cars meeting international standards. Toyota produced the Toyopet Crown (1500cc) in January 1955, and Fuji, aiming at the luxury car market, produced the Prince Skyline (also 1500cc) in April 1957.

(<http://njkk.com/about/industry5.htm>)

### **3.4.2 The Rise of Cars for Personal Use**

With the rise of personal income after the war, the number of cars sold for personal use – including for government and business staff – reached 54.5% of the total of cars sold in 1958. This tremendous growth was mainly due to affordability through substantial cuts in sales prices resulting from expansions, increased operational efficiency, and a mass-marketing approach.

### **3.4.3 Acceptance of Japanese Cars on the Rise**

The 1973 oil crisis caused petrol prices in the US to double. As a result Japan's export markets in the US and Europe expanded due to Japanese cars' reputation for excellent performance and superior fuel efficiency.

According to a study by the United States Environmental Protection Agency during this period, the fuel efficiency of Japanese cars exceeded that of European cars, making Japanese cars the best alternative for the needs of the US market. (<http://njkk.com/about/industry5.htm>)

#### **3.4.4 Attention to the Environment**

Japanese manufacturers have made significant efforts in response to increasing environmental concerns. Their objective is to support comprehensively effective measures from development and design, through manufacture and sales, to the recycling of their products. The industry is addressing such issues as reducing of vehicle exhaust emissions, increasing fuel efficiency, developing alternative-energy cars, protecting the ozone layer, and increasing efficiency in plants and infrastructure to reduce air, water and noise pollution. Moreover, Japan vehicles are being recycled at the rate of 75% of vehicle weight, and there are new measures to further improve recycling in the production process. (<http://njkk.com/about/industry5.htm>)

#### **3.4.5 Joint Relations between US, European Union and Japanese Manufacturers Today**

Since 1965 Japanese and US manufacturers have shared a strong history of capital and technical bonds that survived all the trade issues that have arisen between them. Over the years these bonds have expanded and today cover capital, production, import and sales ties, as well as cooperative bonds.

After the US, the European Union is the second largest automobile market for Japanese manufacturers. Nissan was the first to establish its own independent operations in the United Kingdom in 1984, followed by Honda in 1985, Isuzu (in a joint venture) in 1987, and Toyota in 1989. Outside the UK, operations include a Toyota-Volkswagen tie-up in Germany; a Nissan and a Suzuki tie-up in Spain; a Toyota joint venture and a Mitsubishi tie-up in Portugal; and a Mitsubishi joint venture in the Netherlands. Suzuki has also established a joint venture operation in Hungary.

### **3.4.6 Globalization of the Japanese Automotive Industry**

The rise of disposable income, as well as political changes in many countries, is steadily increasing the automotive market. Global ties are perceived as an effective way to respond to this trend and meet the growth in many markets. As globalization continues, the expansion of international alliances is increasing; ranging from technical and marketing cooperation and components supply, to full-scale joint vehicle development and production.

While competition continues in other areas, these bonds allow for reductions in the costs of development, improved efficiency, and the transfer of technical and marketing know-how.

The expansion of strong alliances with Western manufacturers, as well as increasing ties with Asian manufacturers, reflect the Japanese industry's desire to create a mutually useful global system of trade in automobiles and auto parts. (<http://njkk.com/about/industry5.htm>)

### **3.4.7 Toyota Motors Start Up**

Established in 1937, the Toyota Motor Company's first cars were imitations of American models. In 1947 Toyota began to develop products of their own based on knowledge gained from reverse engineering. Since then, a succession of innovative product initiatives and improvements in technical expertise has made Toyota what it is today. In 1960, the company developed a unique corporate organizational and management approach – the Toyota Production System – when it only had a small annual production capacity of 155,000 units. This system was later studied by the rest of the world. “(A Comparative Study of Automobile Industry Between Japan & Korea, 2004)”

On the marketing side, Toyota introduced a new mass-marketing system in 1953, switching to a two-channel system beginning in Tokyo. Moreover, PR programmes were adopted to educate the

market and stimulate new demand. In addition, the Tokyo Motor Show – first held in 1954 – became a regular fixture. More and more promotional ideas to support sales were introduced, i.e. the donation of vehicles to international car rallies, such as the 50,000km London-to-Tokyo, sponsored by Asahi Shimbun.

In terms of product quality Toyota, and the Toyota brands Lexus and Scion, are consistently ranked close to the top in certain quality and reliability surveys, such as J.D. Power and Consumer Reports. In terms of innovation, Toyota is one of the largest companies to introduce hybrid electric vehicles to the market and the first to commercially sell such vehicles, with the introduction of the Toyota Prius in 1997.

As of March 2013, the Toyota Motors Corporation sells 19 Toyota and Lexus hybrid models and one plug-in hybrid in 80 countries around the world. It plans to launch 18 new hybrid models before the end of 2015.

Though Toyota started by reverse engineering and with modest tie-ups with foreign manufacturers, the Toyota business model has been mainly dependant on innovation since its inception and is quite different from those of the Koreans and the Chinese. Toyota established a comprehensive approach to innovation in product development, process, and management. The start up of Toyota was not marked by quality pitfalls or poor safety problems. When Toyota identified a gap in the American market for small inexpensive compact cars, the brand had no association with poor quality and managed to penetrate the American market assertively.

Product quality and innovation initiatives supported the tremendous growth of Toyota's brands and left no room for negative word of mouth. "(A Comparative Study of Automobile Industry Between Japan & Korea, 2004)"

The power of their quality products paved the way for geographical expansion and spread over the years.

### **3.5 The Korean Automotive Industry<sup>6</sup>**

Between 1981 and 1996 the auto industry was one of the foremost achievements of the rapid industrialization of the Republic of Korea; with notably high rates of average annual growth in production (22.7%), domestic sales (19.5%), and exports (36.2%). However, due to the economic slowdown, all automakers, except Hyundai, experienced a serious financial crisis from 1997-1998. Kia went bankrupt in 1997, while Samsung, Ssangyong, and Daewoo all went into liquidation in 1999.

The following will address the major phases of the Korean automotive industry evolution.

#### **3.5.1 Phase One: 1960s to mid-1970s**

When Major General Park Chung Hee came to power in 1961, a dramatic change occurred in the automotive industry. In 1962 the first of Seoul's five-year development plans prioritized the creation of a domestic automobile industry. To empower this initiative the government banned the import of completed cars, but encouraged the acquisition of foreign parts by allowing duty-free imports on auto parts for domestic producers. Since the industry was still immature in both technology and productivity, it relied on semi- and fully-knocked-down kits imported from Japan and the US for assembly and sale in Korea.

In order to allow more independence for Korean producers the government encouraged joint ventures for the acquisition of technology and know-how; such as the JV between Hyundai and Ford which saw the assembly of the Cortina in Korea under license. With more technological

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<sup>6</sup> See The Globalization of the Korean Automotive Industry (Greenbaum, 2002)

advancement – aided by Japanese firms like Mitsubishi and Honda – the “Pony” became the first Korean car to appear on the market.

Another Korean player, Daewoo, teamed up first with Toyota. When General Motors bought Toyota’s stake, turning it into General Motors Korea, it helped Daewoo to become Korea’s largest producer by 1976, with an annual capacity of 50,000 passenger cars. Another large player was Kia, which teamed up with Japan’s Honda Motor Company. Kia was able to produce its first passenger car, the Brisa by 1974.

In 1972, the domestic content of the Korean automotive industry rose by 60%. Total production increased from 1,777 units in 1962 to 37,290 units in 1975.

### **3.5.2 Phase Two: The late 1970s**

By 1979, the domestic components ratio was above 90%. However, efficiency and competitiveness did not improve, although there were some modest trials of exporting. Though the numbers were small – around US\$100 million worth of automobiles – they represented an historical milestone in the development of the Korean auto industry.

Geographical expansion took place in around 67 countries in total. In 1979, Kia exported 6,647 units to various countries around the world. Kia also managed to strengthen its international partnerships by producing the “604” sedan for Peugeot and assembling the “132” sedan for Fiat.

### **3.5.3 Phase Three: The 1980s and Early 1990s**

This phase witnessed major changes both internally and externally. The government introduced a reform package called Rationalization Measures, with the intention that Hyundai and Daewoo should merge their passenger car manufacturing, and Kia and Asia would specialize in producing

small-sized trucks. These measures were not positively received and were eventually abandoned. By 1982, Hyundai had managed to meet both Canadian and EEC safety and pollution standards. By 1985 had also met US standards, allowing Korea to capture 4% of the automobile export market and making it the eighth largest automobile exporter by 1987.

Though Korean cars appeared to be a relatively good substitute for Japanese cars, due to their similarities in technology and style, nevertheless their original start-up in the market was associated with poor quality due to many technical problems. After a 25 year ban on assembled foreign cars, the 1980s saw a partial opening of the Korean domestic automotive market for imported cars, as the government took measures to end protectionism.

#### **3.5.4 Phase Four: A New Player Joins the Game, and the Financial Crisis**

In the early 1990s the Samsung Group announced its desire to enter the automotive industry. Although this was met with a lot of opposition from rivals, Samsung made its entry in 1995. With the additional investment from Samsung, and investments made by rivals in an attempt to keep Samsung out, the market became saturated and prices and profits fell. By 1997 the imprudent lending practices of banks had obliged both Kia Motors and Ssangyong Motors to go into receivership. Automobile sales in Korea dropped for both foreign and domestic brands.

The financial crisis forced some restructuring within the industry. It left only three major players: the Hyundai Group, incorporating Hyundai Motors and Kia Motors; Daewoo Motors; and the Samsung Group. The Hyundai Group is by far the largest of the three, possessing over 70% of the 4 million-plus Korean automotive production capacity. “(South Korea's Automobile Industry: Development and Prospects, 1992)”



Moreover, the year 1997 was the first time in the history of the Korean auto industry that exports surpassed domestic sales. Increasing globalization compelled Korean manufacturers to improve reliability, safety measures, and pollution levels in order to compete.

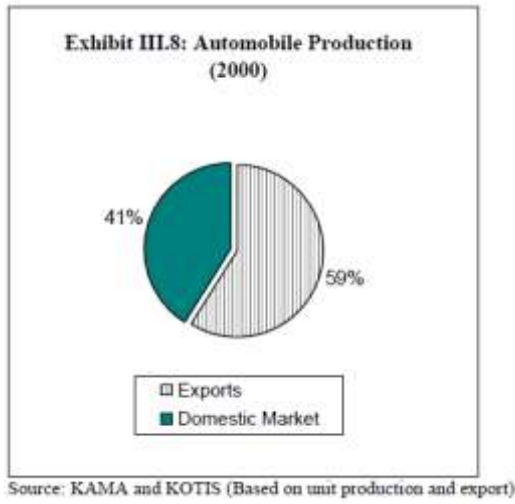
Figure 3.5 shows the international financial and technical alliances with Korean automobile firms, 2001.

Hyundai	Daewoo	KIA	Samsung	Ssangyong
AO Chimeksmash	Aboul Fotouh Establishment	DaimlerChrysler	Nissan	CM Co.
Assan Group	Avtozaz	Dewan Farooque Motors Ltd.	Renault	DaimlerChrysler
Bars	Bertone	General Outsourcing		Vignuzzi Group
Berjaya Conglomerate	Doninvest	Hyundai		
Citra Mobile National	Fabryka Samochodow w Lublinis (FSL)	Karmann		
DaimlerChrysler	Filipinas Daewoo Industries Corp	Mazda		
Dewan Farooque Motors Ltd	First Automotive Works	Mitsubishi		
Gabo Brothers	General Motors	Peugeot		
Jack Wang Co.	Guilin Daewoo Bus Co.	Saipa Corp		
KIA & Asia Motors	ItalDesign SpA	Yuefa Motors Corp		
Mitsubishi	Kerman Motor Corp.	ZAO Avtotor		
Peugeot	LDV			
PT Bimantara Indonesia	Lotus			
Renault	Peugeot			
	Pininfarina			
	Renault			
	Shandong Automotive Corp.			
	Ssangyong			
	Steyr-Daimler-Puch			
	Suzuki			
	UzDaewooAvto			

Source: *Ward's Automotive International 2001 Interrelationships Among the World's Major Automakers*

**Figure 3.5: The International Financial and Technical Alliances with Korean Automobile Firms**

In 2001, 59% of the 3.1 million vehicles produced were exported to almost 160 countries, as shown below in Figure 3.6.



**Figure 3.6: Automobile Production and Exports**

Along with the Chinese auto industry, joint ventures have strategically supported each of these countries in their pursuit of technology and access to expertise.

In terms of product development and innovation the Japanese clearly led the way, with a real competitive advantage regarding process innovation, product development, and even green technology and hybrid cars.

Figure 3.7 shows the major strategic alliances and joint ventures with Non-Korean automakers.

Korean company	Foreign company	Year	% of foreign ownership	Amount paid	# of cars produced	Type of agreement
Hyundai (1)	Ford	1968				Assembling Ford's cars and training for engineers
Hyundai (1)	Mitsubishi	1979				Access to technology
Hyundai (2)	Mitsubishi	1982	10	7.5	300000 units p.a.	license
Hyundai (1)		1985				54 license agreements signed
Hyundai (3)	Mitsubishi	1985	2			
Daewoo (3)	GM	1972	50	84		joint venture
Daewoo (4)	GM	1984	50	427	167000 units p.a.	joint production
Daewoo (5)	GM	1985	50	120	parts	joint venture
Daewoo (6)	Siemens AG	1996	40	300	parts	joint venture
Kia (1)	Mazda	1974				Assembly of Mazda cars
Kia (2)	Mazda	1986	8			FDI
Kia (7)	Ford	1986	10	30	50000-75000	FDI
Ssangyong (8)	Mercedes-Benz	1992	5	33.9	150000 units p.a.	FDI

Figure 3.7: Major Strategic Alliances and Joint Ventures with Non-Korean Automakers

### 3.5.5 Hyundai as an Example of Brand Building<sup>7</sup>

Established in 1967, Hyundai began its development with a partnership with Ford producing both trucks and cars. By the early 1970s, however, Hyundai had moved away from partnership agreements and started production of its own passenger car the Pony in 1974. The model was well received by the domestic market and made Hyundai the number one carmaker in South Korea; a position it maintained for over three decades. By 2005 Hyundai occupied about half of the country's automobile market. The brand also achieved breakthroughs in other countries. By the end of 2005, Hyundai had expanded into 193 countries and was selling cars through 5,000 dealerships and showrooms. In addition to its three production plants in South Korea, it had

<sup>7</sup> See "Hyundai and Kia: Automobile Branding in China", 2007.

manufacturing subsidiaries in countries such as China, Egypt, India, Indonesia, Iran, Malaysia, Russia, Sudan, Turkey, the US, and Venezuela. In 2005, their sales amounted to US\$ 58 billion, with a net income for the year of US\$ 2.3 billion; representing a 41% increase versus the previous year.

To a great extent this breakthrough was due to Hyundai's attention to improving product quality. In 2004 one of Hyundai's passenger cars – Sonata – was ranked number one in the US by the J.D. Power and Associates New Automobile Initial Study. Furthermore, Hyundai Motors gained top marks with respect to improvements in product quality in the 2005 J.D. Power and Associates Durability Study.

Hyundai had a clear objective to raise its brand value and become one of the top five worldwide automotive brands and to be ranked among the world's 30 global brands by 2010.

In 1997 Kia was US\$ 10 billion in debt when the company was put for auction by its creditors. Hyundai acquired a 51% stake in Kia on December 1<sup>st</sup> 1998. This led to the formation of the Hyundai-Kia Automotive Group, which became the world's sixth largest automaker in 2005.

### **3.6 Joint Ventures and Chinese Industry Structure**

US President Richard Nixon's historic trip to China in 1972 paved the way for joint ventures. The American Motors Corp. initiated the first in 1983 to produce Jeeps with the Beijing Automotive Works, China's oldest domestic auto company, founded in 1953. Two years later Volkswagen was the first foreign auto company to build a plant in China in a joint venture with Shanghai Automotive Co. (now SAIC) to build the Santana, based on the VW Passat.

A series of JVs between Western and Chinese automakers then came about, supported by the Chinese government. Today virtually every major American, Asian, and European manufacturer is involved in a JV with one or more Chinese counterparts.

Since the command economy – in which the production of goods is regulated by the government and not by consumer demand or market forces – dominated the Chinese market, no real commercial input was apparent in the automotive industry until the late 1980s, with the first JV agreement between the German Volkswagen and the Chinese Shanghai Automotive Industry Corporation (SAIC). By the mid-1990s the automotive industry was fragmented with more than a dozen large JVs. Table 3.1 illustrates the major joint ventures in the Chinese automotive industry. <http://chinaautoweb.com/auto-companies/>

<b>Chinese Automakers</b>	<b>Foreign Joint Ventures</b>
BAIC (Beijing Auto, Beiqi)	Beijing Benz, Beijing Hyundai, Foton Daimler
Brilliance Auto, Huachen Auto Group	Brilliance BMW
BYD Auto, BYD Company	Shenzhen BYD Daimler New Technology Co., Ltd
Chang'an Auto (Chana Auto)	Chang'an Ford, Chang'an-Mazda, Chang'an-PSA, Chang'an-Suzuki, Chang'an Changhe Suzuki
Changhe Auto, Chang'an.	Changhe Suzuki
Chery Auto	Qoros Auto
Dongfeng Motor (DFM, "Eastwind")	Dongfeng Nissan, Zhengzhou Nissan, Dongfeng Peugeot Citroen, Dongfeng Honda, Dongfeng Yueda Kia
FAW (First Automobile Works)	FAW Volkswagen, FAW Audi, FAW GM, FAW Mazda, FAW Toyota
Foton, BAIC. (Beiqi Foton)	Foton Daimler

Fujian Motor	Soueast Mitsubishi, Fujian Benz
GAC (Guangzhou Automobile Group Co.)	GAC Honda, GAC Toyota, GAC Fiat, GAC Mitsubishi
GEELY Auto	Volvo Cars
Hawtai	Hawtai Hyundai
JMH (Jiangling Motor Holding)	Jiangling Ford
Jonway Auto	ZAP Jonway
Liuzhou Wuling Motors, Co., Ltd	SAIC-GM-Wuling (SGMW)
SAIC (Shanghai Automotive Industry Corporation)	Shanghai GM, Shanghai Volkswagen, SAIC-GM-Wuling (SGMW), Nanjing Iveco (Naveco), Shanghai Sunwin Bus
Soueast Motor	Soueast Mitsubishi
Youngman Automobile Group Co., Ltd.	Youngman-Neoplan, Youngman-MAN AG, Youngman-Proton

**Table 3.1: Major Joint Ventures in the Chinese Automotive Industry**

The Chinese government regulated the entrance of foreign companies into the industry by enforcing a 50% maximum foreign ownership rule; this remained implemented even after the World Trade Organization (WTO) agreement in 2001. This virtually eliminated Chinese manufacturers from competing with the middle and upper segments of the passenger car markets for quite a long period. Although state-owned enterprises (SOE) were subsidizing local manufacturers, their market was falling with the growth of wealth generated by economic reforms and many SOEs started to collapse. Moreover, Chinese consumers seemed to prefer Japanese and European middle- and upper-range passenger cars. This drove out the Chinese manufacturer from the upper segment and cornered them in the lower segment.

There were two automobile manufacturing models in the Chinese industry. The most successful in terms of sales was the JV model; involving a foreign manufacturer and a local auto company. This model secured a greater depth of development with established R&D and development processes. It allowed pre-production models to be fully tested before entering the mass market. SAIC led with its partnerships with Volkswagen and GM which allowed for technology transfer. The technology was relatively outdated by international standards, yet advanced compared to the existing technology in China. Next, the Guangzhou-Peugeot deal was signed in 1985; Tianjin Auto Works purchased Daihatsu's Charade technology in 1986; and many other JVs followed. These JVs were a way for the Chinese to learn the basics of the modern automotive industry.

The second manufacturing model was that of a local company with substantial internal technology and processes combined with some foreign input. These original equipment manufacturers (OEMs) produced locally manufactured vehicles with less development, bypassing the expensive cost of R&D. By nature, these companies competed in the low-end market; since their investment in R&D was negligible and limited for a long time their ability to produce high quality passenger cars. This was GEELY's original model.

The history of JVs in China can be divided into three phases.

**Phase I:** The first is the period leading up to 1978, when the central government started to consider the power of foreign technology. During this period government protectionist controls forced up demand and resulted in a surge in car smuggling that was said to exceed legal imports twofold. Consequently JVs were seen as a quick solution to this problem rather than technology and know-how transfer.

**Phase II:** This phase began when the government started to recognize JVs as a means of technology transfer. It was then that cooperative invitations were sent to GM, Ford, Nissan,

Toyota, VW, Citroen, Peugeot, Renault, and Fiat. After more than five years of negotiations, SAIC signed a JV agreement with VW, the company which had shown most interest, in 1984.

**Phase III:** The third phase is the one that has most relevance to this study. It was when Chinese domestic manufacturers began to develop their own modest trials of technology, initiating a second wave of JVs, co-branding, and acquisitions.

### **3.6.1 Joint Venture and Technology Transfer as Strategic Choice**

Since the Chinese government opened its markets in the 1980s, hundreds of international businesses and brands have been competing to benefit from the exponential growth of business opportunities in China. China has become one of the largest markets for international business. These business opportunities took the form of both JVs and direct investment. (Z. Zhao et al., 2005)

By end of 1997, it was reported that over 200,000 JVs were registered in China; with a total foreign investment of US\$ 204 billion, and with US\$ 15.7 billion coming from US companies “(China National Statistics Bureau, 1997)”.

In 1997 the International Monetary Fund predicted that if China could maintain its current growth rate, its GDP would match the total GDP of the European Union and the USA within 10 years. Furthermore, according to the World Bank (1997), China has the potential to become one of the largest markets for international business.

JVs have multiple advantages for Chinese businesses. According to research conducted by the German Federation of Commerce, 74 German companies surveyed had JVs in China or had directly invested in manufacturing plants in China. The results revealed that 70% of them were “very satisfied” or “satisfied” with these collaborative agreements and expressed intent to increase investment and production capacity in the near future. Meanwhile 90% of those surveyed



said their competitive activities there would expand beyond China and into the international marketplace. Other research has focused on high-tech industries, surveying 800 JVs located in China's new economic development zones, in an attempt to understand the different expectations that foreign investors and their Chinese partners have of joint ventures (Lin, 1997). The results disclose that these different expectations can be satisfactory for both sides and lead to positive effects and success; as illustrated in Table 3.2.

### **Different expectations between foreign investors and Chinese partners**

<b>Expectations</b>	<b>Foreign investors</b>	<b>Chinese partners</b>
1	Open China's market for its products	Adopt advanced production technology
2	Overcome trade barriers	Improve R&D capability
3	Take advantage of low cost labor and materials	Open more information channels
4	Expand existing techniques from home facility	Looking for allies for international competition
5	Reduce financial risks	Add new financing source
6	Protect copyright for intellectual products	Increasing firm reputation from famous brand
7	Reduce capital input in investment	Utilize current and available resources
8	Access natural resource	Reduce operational risks

**Table 3.2: Different Expectations of Foreign Investors and Chinese Partners**

For instance, the primary objective for multinational (MN) corporations investing in China is to overcome potential trade barriers by using local production plants to access China's huge market. Meanwhile, the Chinese partners seek foreign investment in JVs because they want MNs to bring in more advanced production technologies that improve the R&D capabilities of local plants through system installation, maintenance, and employee training programmes.

The research also highlighted that one of the advantages that Chinese partners sought was the utilization of the MN corporations' reputations by way of their famous brands. Accordingly, one of the objectives of the JV strategy from the Chinese perspective is to support the growth of Chinese brands through the association with established brand names.

### **3.6.2 The Chinese Auto Industry and Knowledge Transfer through JVs**

A clear objective for Chinese automotive firms forming relationships with multinationals was to increase their R&D capabilities. (Baranson, 1977; Brewer and Nollen, 1998)

Governments in emerging markets, including China, have created policies designed to pursue greater local knowledge acquisition as well as greater local production when allowing multinational enterprises to operate in their countries. (Martinsons and Tseng, 1999) An extensive amount of literature suggests that transferring R&D capabilities across firms involved in international joint ventures entails extensive development of tacit and organizationally embedded knowledge. (e.g. Beamish, 1993; Child and Yan, 2001)

Originally, when foreign investors started joining forces with China's automakers, Chinese R&D capabilities were very weak. (Buck et al., 2000) Furthermore, the SOEs initially produced commercial vehicles rather than passenger cars, and invested minimally in development. R&D spending was less than 1% of revenue, far lower than any MN investment in R&D.

Since the Chinese government began to strategically consider the auto sector as a pillar industry, their policies have supported the development of its domestic R&D capabilities. In order for foreign joint ventures to be established, they must have an internal technical centre capable of developing future generations of products meeting global technological standards. Industrial policy enforces three strategic instructions for developing internal R&D capabilities "(The State Administration of Machinery Industry, 1995)".

First: five to 10 percent of total reinvestment in OEMs must account for growing their technological centres. Second: within five to 10 years R&D investment should account for at least two to three percent of sales. Third: key component suppliers should allot 10 to 20 per cent of their reinvestment to developing R&D facilities and technical centres. The government provides both financial and taxation support to encourage joint R&D projects.

### **3.7 Summary Comparing the Japanese, Korean, and Chinese Automotive Industries**

In their paper *A Double Diamond Comparison of the Automotive Industry of China, India, and South Korea*, Sardy, M., & Fetscherin, M. (2009) applied the Double Diamond Model in the

contexts of the Chinese and Indian automotive industries and compared them to South Korea's. They also assessed the competitiveness of each industry within the global context, concluding some remarkable insights.

Overall it appears that the Chinese automotive industry is more competitive than the South Korean in their relevant domestic markets. China had a higher value on all four determinants of the Double Diamond Model. The strongest dimensions are the factory conditions, accounted for by lower manufacturing wages than those of South Korea. As far as the international Diamond is concerned, again the Chinese automotive industry seems to be more competitive overall than South Korea. China has an advantage due not only to low manufacturing wages and high productivity, but also to the fact that most Chinese automotive companies have JV arrangements with foreign companies. These JVs are the Chinese automotive manufacturers' gateways to the acquisition of knowledge and technical expertise. The rapidly growing domestic market in China is benefiting auto manufacturers through the economies of scale even before they enter international markets. This was not the case for South Korea. The global automotive landscape is changing very quickly and, though South Korean automotive brands are quite well known internationally, the strong acquisitions of Chinese automotive players – such as Rover by NAIC, and Volvo by GEELY – are paving the way for improving Chinese global brand recognition.

The Japanese experience reveals that a company must consider a global approach by marketing its own brand and controlling its own marketing channels internationally. Continuous improvement is also embedded in Japan's model. The Japanese chose to pre-empt their potential obsolescence by innovating, thus protecting their advantage before circumstances forced this course of action upon them.

Japanese automakers identified gaps in the global market and penetrated them with small, compact, inexpensive cars of acceptable quality. They then upgraded and built large modern plants to bring in economies of scale. Subsequently they became innovators in process technology and just-in-time (JIT) production, which naturally led to better product quality, increased customer satisfaction, and better repair records. This in turn placed Japanese brands at the forefront of product technology and paved the way for introducing premium brands to compete with the world's most prestigious passenger cars.

The identification of a market gap and consumer need, led Japanese automotive brands to penetrate the US market followed by the European markets. The sustainability of this growth was supported by the investment in product quality and innovation along with the operational efficiency, all of which together added to the perceived value of Japanese brands and supported them in their pursuit to build strong brand Equity. Japanese brands do not hold the negative effect of the COO which also accelerated the global expansion of their brands.

## **CHAPTER 4: THEORY OF ACTION AND RESEARCH METHODOLOGY**

### **4.1 Theory of Action**

No other nation has come close to matching the economic strides China has made since the late 1970s. During the past quarter of a century China has developed into the world's premium factory. However, as this came about, other important aspects, such as research and development, technological advancement, and the development of powerful brands, was neglected.

For many years Chinese brands have been directly associated with low-priced, low-quality products, and the country of origin label and image has long detracted from their brand equity.

In the last 10 years, a new era for Chinese brands has dawned, with moves towards challenging this COO syndrome by shifting away from low-quality, low-price products and an awareness of the advantages of investing in brand-building. A dramatic paradigm shift is occurring as Chinese brands seek to compete globally, causing marketers to contemplate how the Chinese will move up the value chain and build powerful brands. A new understanding of the meanings of quality is emerging that will enable the Chinese to play a different competitive game.

The Chinese government is now pushing some of the country's largest companies to sell branded products abroad. Furthermore, many Chinese companies have discovered that because their home market is so brutally competitive on price branded products, can be more profitable. According to the rankings of Interbrand – the leading brand consultancy that has pioneered research into the brand valuation model since 1984 – the brand value of outstanding Chinese enterprises is increasing hand-in-hand with the country's economic growth, reflecting an evolution in Chinese brands from best-in-class to world-class.

However, it is apparent that building brands to compete in China or abroad requires a different mindset; one capable of developing innovative products, adding value, reaching out to consumers, and improving brand image.

This research investigates how the Chinese are going about building powerful brands, and explores the antecedents of building Chinese Brand Equity by focusing on selected marketing mix elements and the COO. The study is exploratory in nature, and will discuss in depth the evolution of Chinese brand creation through two case-studies from the automotive industry: GEELY and BYD.

## **4.7 Research Method**

### **4.7.1 Research Design**

A qualitative approach is adopted to acquire an understanding of Chinese brand equity creation. A case-study methodology is applied and the unit of the analysis are two Chinese automotive brands; GEELY and BYD.

In order to explore the research questions and to achieve the research objective, the researcher will be using the **Case-Study Research Type**.

The data used for the qualitative analysis comes from case-studies. Case-studies are in-depth examinations of complex events, or series of events, and are based on comprehensive understanding of this/these specific event/s. Because the explorative study of Chinese brands is still at an early stage, and because the researcher needs to extensively and comprehensively describe and analyze the position of Chinese brands, the case-study approach was adopted as the most effective method.

A quantitative study is conducted to test objective theories through the examination of the relationship among variables. Quantitative study is statistically based and does not involve participants sharing their views, feelings, and experiences about the research topic (Creswell, 2009). Qualitative research does not require assessment or analysis but instead is conducted to facilitate exploration of free and open commentary from participants (Bann, 2009). For the purpose of this

research a qualitative study was preferred to explore the Chinese path of building brands and the effect of country of origin and brand differentiation on Chinese brand equity for two brands; namely GEELY and BYD.

There are different methods of conducting qualitative studies, such as ethnography, grounded theory, case-study, phenomenological, and narrative research.

In addressing the research questions a case-study for the automotive industry and, more specifically, two automotive brands (GEELY and BYD) will be investigated. Since the case-study approach is a research strategy focusing on understanding the dynamics presented within the single setting and real-life context (Yin, 2003; Eisenhardt, 1989), the researcher will depend on case-study analysis to explore the antecedents of Chinese brand equity.

As per Yin (2009) a case-study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. Since Chinese brands are evolving, and since there is currently no clear line to articulate the new shift in Chinese branding, the relevant case-study analysis will be used to investigate and explain the how and why of the brand building phenomena.

Because in a case-study one must generalize according to a theory and since (according to Patton, 1997) researchers do not always have a good theory, particularly when exploring new or cutting-edge issues, a logic model or “Theory of Action” has been developed.

Eisenhardt (1989) says that case-studies are: “Particularly well suited to new research areas or research areas for which existing theory seems inadequate. This type of work is highly complementary to incremental theory building from normal science research. The former is useful in early stages of research on a topic or when a fresh perspective is needed, whilst the latter is useful in later stages of knowledge.” (pp. 548-549)

The Theory of Action in this study is composed of the antecedents and sources of Brand Equity; Country of Origin (COO) and Brand Differentiation based on selective marketing mix elements and JV and Co-Branding. Since the researcher is exploring Chinese brand equity creation, it was very important to give the highest attention to the COO as an important construct affecting the brand equity of the brands under study.

Brand Differentiation is represented by using some marketing mix elements: product quality from the “P” of the product, perceived value from the “P” of the price, distribution presence from the “P” of the place, and Joint Venture and Co-Branding that are relevant to the automotive industry.

On the other side Brand Awareness, Perceived Quality, and Brand Association (Image) represents the sources of Brand Equity. The objective of the researcher is to explore the impact of Chinese COO on Brand Equity and the impact of the selective marketing mix elements and Co-Branding and Joint Venture on Brand Equity.

Feldwick (1996) classified brand equity as a measure of the strength of consumer attachment to a brand; or a description of the associations and beliefs a consumer has about a brand.

David Aaker regards brand equity as brand loyalty, brand awareness, perceived quality, brand associations, and other proprietary assets such as patents, trademarks, and relationship channels.

Though there is a difference of opinion about some elements which might constitute brand equity, overall Keller and Aaker agree on the essential model and definition. These essential elements are brand awareness, perceived brand quality, and brand association (image). Some would add brand loyalty, brand preference or familiarity, and brand resonance. However, it is the agreed first three elements that constitute the brand equity construct within the research under study.

Some authors think of brand loyalty as a behavioural response and a function of psychological processes. Thus, brand loyalty is a function of both attitudes and behaviour (habit). Brand loyalty differs qualitatively from the other dimensions of brand equity, since it directly relates to prior



purchase and use experience (Aaker, 1991); while awareness, associations, or perceived quality may be investigated and studied even when the brand is not yet used (Silva et al., 2012).

For the purpose of this study, the elements of the sources of brand equity construct are an extension of Aaker's model (1991). However, brand loyalty will be excluded from the model since it reflects purchase and repurchase, which is far beyond the scope of this study. According to Anantachart (1998) Aaker's model – which is one of the first conceptualizations of brand equity from the consumer's point of view, including both attitudinal and behavioural dimensions – provides the most comprehensive framework for measuring brand equity. Though some findings have suggested that brand associations and brand awareness should be combined into one dimension – supported by later studies by many academics (Washburn and Plank, 2002; Kim & Kim, 2004; Kim, Jin-Sun, & Kim, 2008) – the literature review has led the researcher to be more comfortable in applying Aaker's model, recognizing Brand Awareness, Perceived Quality, and Brand Association (Image) as the main variables constituting the Brand Equity construct.

#### **4.2.2 The Conceptual Framework**

While there has been great interest in the concept of brand equity, little conceptual development or empirical research has studied its sources and development (Barwise, 1993). Shocker, Srivastava, and Ruekert (1994) pointed out that more attention should be paid to developing a “systems view” of brands and products, and how the marketing mix elements created by pricing, promotional, service, and distribution decisions, combined with the product itself, help to create brand equity and affect buyers' decision making. (p. 157). This study explores the antecedents of Chinese brand equity and their relationship to the sources of brand equity.

The following represents the antecedents and sources of brand equity within Chinese context. Both antecedents and sources of brand equity constitute the conceptual framework of the study. The researcher will then present the research questions under study.

#### 4.2.2.1 The Antecedents of Brand Equity

It has been noted several times that Country of Origin has an impact on the perception and recognition of brands. It is easier for consumers to have a positive image of brands that originate in countries of which they already have a positive image in economic, political, cultural, or historical terms; or when the brand conveys a positive image of a country and/or its values. This study attempts to discover the antecedents of brand equity within Chinese context. The study explores the impact of Chinese COO on brand equity. Furthermore, this study investigates the relationships between selected marketing mix elements as antecedents of brand equity in China. The following will discuss each attribute followed by the sources of brand equity.

##### c. Brand Differentiation (BD)

###### 5. Product Quality

**Definition:** Quality in a product or service is not what the supplier puts in. It is what the customer gets out and is willing to pay for. (Drucker, 1985)

###### 6. Geographical Presence

**Definition:** Refers to [convenience of] the distribution channels to display or deliver the physical product or service(s) to the buyer or user. (Kotler, 2001)

###### 7. Joint Ventures and Co-Branding

**Definition:** A Joint Venture is one type of strategic alliance formed by two or more corporations who agree to share ownership of a Foreign Direct Investment in order to achieve a common goal in a foreign market. (Som, 2009)

Whereas, co-branding includes marketing of any kind involving at least two distinguished brands. (Keller, 2003)

8. Perceived Value

**Definition:** The worth that a product or service has in the mind of the consumer. The consumer's perceived value of a good or service affects the price that he or she is willing to pay for it. (Investopedia Dictionary)

d. Country of Origin (COO)

**Definition:** COO is the [perceived] country of manufacture, production, or growth where an article or product comes from. (Wikipedia Definition)

#### 4.2.2.2 The Sources of Brand Equity

##### **Brand Equity**

**Definition:** The value consumers associate with a brand, as reflected in the dimensions of brand awareness, brand associations, perceived quality, brand loyalty, and other proprietary brand assets. (Aaker, 1991)

##### **The following three attributes constitute the Brand Equity construct.**

d. Brand Awareness

**Definition:** The ability of a buyer to recognize or recall that a brand is a member of certain product category. (Aaker, 1991)

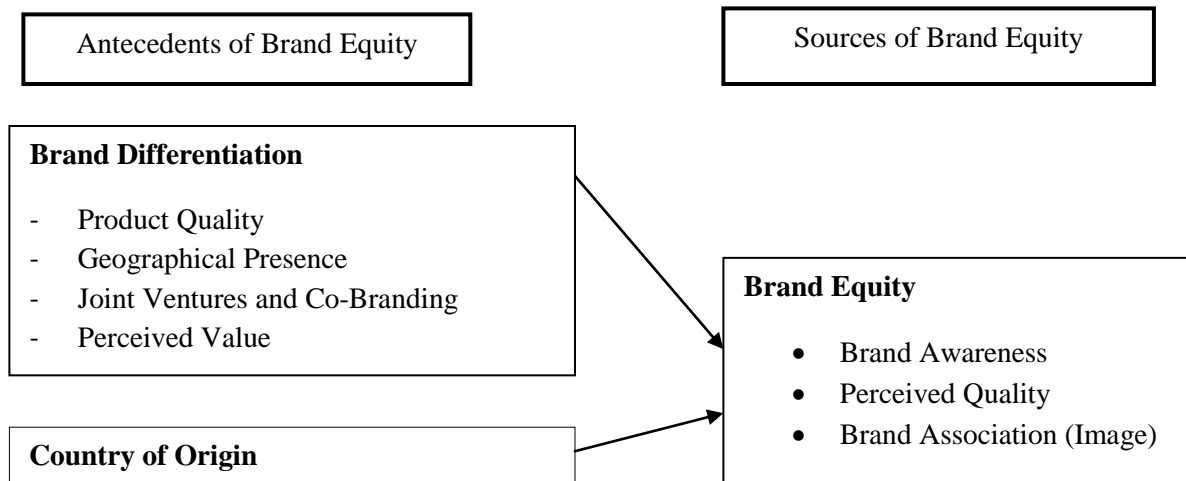
e. Perceived Quality

**Definition:** perception of the overall quality or superiority of a brand relative to alternative products (Low & Lamb Jr., 2000)

f. Brand Association

**Definition:** Brand associations consist of all brand-related thoughts, feelings, perceptions, images, experiences, beliefs, attitudes and is anything linked in memory to a brand. (Kotler and Keller, 2006)

The following represents the conceptual framework of the study.



**Figure 4.1: Conceptual Framework of the Study**

The purpose of this study is to explore how the above elements would affect the brand equity of Chinese brands. It is a starting point for further research investigating the linkage between COO, marketing mix elements and joint venture and co-branding from one side and brand equity from the other side.

#### **4.2.3 Research Questions**

- What is the impact of Chinese Country of Origin on brand equity?
- How is product quality supporting the brand equity of Chinese brands?
- How is geographical presence supporting the brand equity of Chinese brands?
- How are joint ventures and co-branding supporting the brand equity of Chinese brands?
- Is the perceived value of Chinese brands supporting the brand equity of Chinese brands?

#### **4.2.4 Research Generated Themes & Sub-Themes**

**Main Theme: Chinese country of origin is no longer an obstacle to building strong brand equity**

**Sub-Themes:**

- COO and Brand Equity

- Marketing & Branding

**Main Theme: Product quality is positively affecting the brand equity of Chinese brands.**

- Product Quality
- Technology, Innovation, and Safety
- Hybrid and Green Vehicles

**Main Theme: Geographical presence is positively affecting the brand equity of Chinese brands.**

Sub-Themes:

- Expansion and International Presence
- Acquisition and Openness to International Markets

**Main Theme: Joint ventures and co-branding are positively affecting the brand equity of Chinese brands**

Sub-Themes:

- Joint Venture and Co-Branding

**Main Theme: Perceived value is positively affecting the brand equity of Chinese brands.**

Sub-Themes:

- Segmentation and Positioning
- Perceived Value of Branding

### **4.3 Case Definition and Selection**

The automotive industry in the People's Republic of China has been the largest in the world, measured by automobile unit production, since 2008. In 2009, China produced 13.79 million automobiles, of which 8 million were passenger cars and 3.41 million were commercial vehicles. Of the automobiles produced, 44.3% were local brands (including BYD, Lifan, Chang'an (Chana), Geely, Chery, Hafei, Jianghuai (JAC), Great Wall, and Roewe). The remainder were produced by joint ventures with foreign car makers, such as Volkswagen, Mitsubishi, General Motors, Hyundai, Nissan, Honda, Toyota etc. While most of the cars manufactured in China are sold within China, exports reached 814,300 units in 2011.

Until 2005, the USA led the world in total automobile production. In 1929, before the Great Depression, 32,028,500 automobiles were in use globally, and the US automobile industry produced over 90% of them. At that time the US had one car per 4.87 persons. In 2006, Japan narrowly overtook the US in production and held this rank until 2009, when China took the top spot with 13.8 million units. By producing 18.3 million units in 2010, China produced nearly twice the number of second place Japan (9.6 million units), with the US in third place with 7.8 million units.

China's automobile industry has been in rapid development since the early 1990s. Its annual automobile production capacity first exceeded 1 million in 1992. By 2000, China was producing over 2 million vehicles. After China's entry into the World Trade Organization (WTO) in 2001, the development of its automobile market further accelerated. Between 2002 and 2007, China's national automobile market grew by an average 21%, or 1 million vehicles year-on-year. In 2006, China's vehicle production capacity successively exceeded 6 million, then seven million, and in 2007, China produced over 8 million automobiles. In 2009, China surpassed the US as the world's largest automobile producer by volume. In 2010, both sales and production topped 18 million units, with 13.76 million passenger cars delivered, in each case the largest by any nation in history. The number of registered cars, buses, vans, and trucks on the road in China is expected to exceed 200 million by 2020. The consultancy McKinsey & Company estimates that China's car market will grow tenfold between 2005 and 2030.

Consequently the researcher chose to examine the automotive industry in China with a focus on Chinese passenger car brands, specifically GEELY and BYD.

GEELY is the first Chinese auto brand to be recognized by Interbrand as an emerging global contender. It was ranked third among the automotive brands and regarded as a good ambassador

for China. A survey conducted by Interbrand among 700 business and marketing professionals from around the world showed that the GEELY brand was familiar to 10%.

Recently, Interbrand ranked GEELY at 49 out of the best 50 brands in 2010, with a brand value of 1.20 billion RMB. Meanwhile, Interbrand ranked BYD at 37 out of the best 50 Chinese brands in 2010, with a brand value of 3.11 billion RMB.

The unit of the analysis is the automotive industry, with the sub-units being the two automotive brands. Because the research questions are new and no clear theory is grounded to support the questions, the researcher decided to conduct two cases for the purpose of internal validity. From one angle this allows for comparison, contrast, and confirmation across the two cases; from another it makes the analysis deeper and richer by looking at each case individually.

Case study was selected since case study research may lead to a more informed basis for theory development (Bonoma, 1985; Eisenhardt, 1989; Yin, 1989) in a newly developing area of research. The early stages of development, are when the researcher's focus, and phenomena requirements seems inadequate and when these types of circumstances dictate theory building rather than theory testing (Bonoma, 1985; Deshpande, 1983; Eisenhardt, 1989; Gilmore & Carson, 1996).

The researcher selected two case studies for multiple reasons; multiple case studies provide a more accurate and comprehensive approach than single case study research due to the triangulation of evidence (Bonoma, 1985; Eisenhardt, 1989; Herriott & Firestone, 1983; Neuman, 1994; Stake, 1994; Yin, 1994). Moreover, triangulation of data in the context of multiple case studies provides a variety of research sites and data sources to comply with theory generation and verification (Denzin, 1978; Deshpande, 1983; Patton, 1990). In addition, multiple case studies are appropriate as they provide for a rigorous methodology for replication logic (Parkhe, 1993;

Tsoukas, 1989; Yin, 1993). Finally, multiple case studies grant theory confirmation through literal and theoretical replication (Anderson, 1986; Bonoma, 1985).

#### **4.4 Data Analysis**

The data analysis strategy will depend on addressing each proposed theme with its subsequent sub-themes following the same concept of **Theoretical Interpretation** which is the first and most preferred strategy (Yin, 2009). The data analysis structure will follow the original objectives and design of the case-study questions, which in turn reflect a set of research questions and reviews of the literature.

The development of a case description strategy will mainly be used to set the introduction of the case-study, and to give an introductory analysis of the Chinese automotive industry and Chinese brand evolution.

Finally, rival interpretation methodology will be used to explore the two cases in order to clarify any contradictions and counter-arguments that might arise with each question.

#### **Pattern Matching**

For case-study analysis, one of the most favoured techniques is pattern-matching logic. This compares an empirically based pattern with a predicted one, or with several alternative predictions. (Trochim, 1989) If the patterns coincide, the results can help a case-study by strengthening its internal validity. And since the case-studies of GEELY and BYD are explanatory, the patterns may be related to the antecedents or the sources of Brand Equity.

The researcher will use within-case study analysis for the automotive industry and the two brands under study; and cross-case analysis when comparing the two cases.

The researcher is depending on two cases because this allows for simple comparison, and the analysis is likely to be robust and strengthen the findings even more. (Yin, 2009)



#### **4.4.1 Data Collection**

In the case-study approach researchers combine data collection methods such as archives, interviews, questionnaires, and observations. (Yin, 1989) This triangulated methodology provides stronger substantiation of constructs and hypotheses.

#### **4.4.2 Generating a Search Strategy**

"The review of the literature provides the background and context for the research problem. It should establish the need for the research and indicate that the writer is knowledgeable about the area." (Wiersma, 1995)

Since the topic under study is new in nature it was critical to ensure that the search strategy used excludes any bias, and that all information researched should be both reliable and valid in order to reach a properly objective conclusion.

The researcher's rationale was to generate a comprehensive list of published secondary studies which may be relevant for answering the questions presented in the review.

Moreover, the researcher undertook primary research in the form of in-depth interviews and focus groups conducted with industry experts and subject matter experts to validate the questions under study. Both precision and specificity were in effect identified thoroughly to assure the validity and lack of bias of the data used.

While some studies depend solely on electronic databases, this study uses a more systematic search strategy. The literature review contains information extracted from multiple sources to achieve comprehensiveness and exclude bias.

The following represents the sources of research used throughout the study.

#### 4.4.3 Sources of Research Evidence

The researcher followed the guidelines recommended by Yin (2009). The researcher used multiple sources of evidence, and maintained a chain of evidence throughout the two cases analysis.

- Electronic bibliographic databases
- Reference lists from relevant primary and review articles
- Books
- Journals, grey literature and conference proceedings
- The Internet

The data source<sup>8</sup> includes:

- Information from official websites: GEELY ([www.geely.com](http://www.geely.com)), and BYD ([www.byd.com](http://www.byd.com)).  
Because these sites are the official websites of the associated companies, the information is regarded as highly reliable.
- Annual reports of both GEELY and BYD.
- Business Journals
- Specialized Magazines
- Academic bodies
- Research Firms
- Consultancy Firms
- Industry Associations
- Business Associations
- Business Blogs
- Doctoral Dissertations

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<sup>8</sup> A full record of data type and source is added to the appendices

- Research Centers

The researcher also met the requirements for triangulation by using multiple sources of evidence:

- Industry Expert Interviews
- Academic and practitioners Interviews
- Focus Groups
- Pre-coded analysis for second analysis (External researcher)

#### **4.4.4 Type of Reviews**

- Meta-analysis
- Systematic reviews

The researcher has tried to assess information based on her own experience and knowledge.

To achieve triangulation the researcher chose a combination of interviews, focus groups, archives, and pre-coding that acted as a prelude for another external researcher to conduct case analysis for the accepted questions. Conducting a survey was inappropriate due to the lack of established concepts and indicators. The reason for limited observation, on the other hand, is due to the irrelevance of this tool to the research questions under study.

#### **Documentation and Archival Records**

For data collection purposes, the researcher depends on secondary type of information, such as articles, annual reports, business reports, case studies, academic reviews, market studies, specialized reports, and documents.

The dependence mainly on document analysis is due to the nature of the research questions.

### **Structured In-depth Interviews**

In addition to secondary data, the researcher used structured in-depth interviews as a second data collection method with two key segments: industry experts and academic professors. There are three reasons for this:

- To explore the different opinions of industry experts about the questions under study.
- To get a comprehensive understanding from the academic body (marketing and branding experts) about the model logic and Chinese brand building and development.

The researcher conducted in-depth interviews using structured questionnaires through which automotive industry experts stated their opinions on the research questions and themes generated.

The researcher conducted a total of 12 in-depth interviews: eight with automotive industry experts and four with academics. Moreover, two focus groups were conducted with marketing practitioners.

### **Focus Groups**

In order to get the practical experience dimension, the researcher thought it would bring more depth to the research under study to share the model with marketing practitioners through focus groups.

Two focus groups were conducted. This was for two reasons:

- a. To assure the conceptual model is well grounded, so both the academic and the pragmatic sides were covered.
- b. To get the best practices angle regarding the research questions under study.

#### **4.4.5 Validity and Reliability**

The problems of validity in qualitative studies are related to the fact that most qualitative researchers work alone in the field; they focus on the findings rather than describing how the results were

reached, and they are limited in processing information. (Miles and Huberman, 1994). However, according to King (1994): “Qualitative research, in seeking to describe and make sense of the world, does not require researchers to strive for objectivity and distance themselves from research participants. Indeed, to do so would make good qualitative research impossible, as the interviewer’s sensitivity to subjective aspects of his or her relationship with the interviewee is an essential part of the research process.”

Developing a framework before collecting the data for the study was useful in guiding the collection and analysis of data. Nevertheless, it was important to be open-minded and receptive to new and surprising data. (Yin, 2003)

Hakim (1987) says the great strength of qualitative research is the validity of data obtained, because individuals are interviewed in sufficient detail for the results to be taken as true, correct, and believable reports of their views and experiences.

### **Internal Validity**

Internal validity concerns the validity of the postulated relationships among the concepts. The main problem of internal validity as a criterion in qualitative research is that it is often not open to scrutiny. According to Sykes (1990), the researcher can always provide a plausible account and, with careful editing, may ensure its coherence. Recognition of this problem has led to call for better documentation of the processes of data collection, the data itself, and the interpretative contribution of the researcher. However, internal validity is not used for exploratory or descriptive studies. (L. Kidder & Judd, 1986, pp. 26–29)

### **External Validity**

Each case-study will be analyzed separately to allow for deep understanding of each case. A comparison of the two cases will allow for replication which will in turn achieve external validity.

## **Reliability**

In the context of qualitative research, reliability is concerned with two questions (Sykes, 1990): Could the same study carried out by two researchers produce the same findings? And: Could a study be repeated using the same researcher and respondents to yield the same findings? The problem of reliability in qualitative research is that differences between replicated studies using different researchers are to be expected. However, while it may not be surprising that different researchers generate different findings and reach different conclusions, controlling for reliability may still be relevant.

For that purpose, proper pre-coding and appropriate recording by developing a case-study database took place, and the analysis was selectively replicated to support the triangulation of the analysis and conform to the reliability aspects.

The triangulation includes data source triangulation, investigator triangulation, theory triangulation, and methodology triangulations. Since this thesis is not about the study of the methodology itself, little effort was given to review past methodology development. Instead, the task here is to select an appropriate methodology to carry out the study of the Chinese automotive brands GEELY and BYD. The triangulation includes data source triangulation. A full database for all data sources was developed where an external researcher conducted a second objective analysis for selective questions. Those accepted questions were investigated by the external researcher. A section titled Pre-Coded analysis for Reliability will follow the researcher's analysis in Chapter five. This section was developed by an external researcher to fulfil the objective of triangulation since the nature of this study requires the adoption of data source triangulation.

Quality analysis in the GEELY and BYD cases will be achieved through (1) attending to all evidences per question, (2) attending to rival interpretations, and (3) focusing on the main issue of the study.

*Profile of the external researcher<sup>9</sup>:*

- A post graduate researcher holding at least an MBA with focus on Marketing.
- At least 6-8 years of experience in marketing and branding
- Analytical skills and research background

#### **4.5 Research Limitations and Delimitations**

Since Chinese are still finding their way and trying to establish brand equity after a long stand of negative brand association and image and very low perceived quality, the researcher founded its own questions and theory of action based on relevant antecedents of brand equity that selectively constitute the foundation of brand building efforts within the Chinese Context. The researcher assumed that Chinese are currently in a transitional phase where they are shifting from a low-price, low-quality strategy to a brand building strategy. As such the researcher is investigating how the selected antecedents are driving the new shift into building strong brand equity.

The research has some *limitations* as follows:

- One limitation is related to the research design, where the researcher mainly focused on secondary research and primary research with industry experts and subject matters experts while the side of the consumer was not addressed. Since the research is exploratory in nature, the researcher chose to focus the research to have a more global overview of the industry while investigating the two cases. Specially, that the consumers view at this stage could be confusing taking the transition phase of Chinese brand building into consideration.

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<sup>9</sup> A copy of the biography of the external researcher is added to the appendices

- The inexistence of a brand equity model adapted to the Chinese context and specifically the automotive industry. Several models were developed testing the brand equity concept, yet not within the Chinese market.

Some *delimitations* occurred to make the research more focused:

- The selection of the marketing mix elements was vital to the study, yet the researcher excluded the element of promotion because the study is exploratory and is trying to anticipate the direction of the Chinese in building their brands, rather than studying the impact of promotion which is the last phase of the marketing mix build-up. However, instead the researcher selected a more relevant element to the automotive industry to study its impact on Chinese brand equity which is co-branding and joint venture.
- The researcher also adapted the product dimension to focus only on product quality due to its relevance to the industry under study.
- The researcher also selected to focus on the geographical presence specifically from the place element of the marketing mix due to its relevance to the study.
- The dimensions of Brand Equity were limited to brand awareness, perceived quality, and brand associations (image), and excluded brand loyalty. This is because brand loyalty requires prior usage and purchase (Aaker, 1991), while the other three dimensions can be studied without usage of the product (Silva et al., 2012).
- The research was limited to the automotive industry due to the fact that the Chinese automotive industry is evolving and progressively surpassing the United States as the world's once leading producer of automobiles.
- The research focused on marketing antecedents, and the financial indicators were not included such as profits and earnings per share due to the fact that Chinese are still in a



development/investment phase and looking at the profits at the present might be misleading.

- The research mainly focuses on the passenger cars line of two Chinese brands – GEELY and BYD – because these two passenger car brands are listed in the Interbrand list of the top 50 Chinese brands.
- Changes in China’s vehicle industry in the post-reform period mainly stem from passenger car production, making it the fastest growing sector in recent years. Therefore, the focus of this research is on China’s passenger cars.
- The industry experts’ interviews were limited to Egypt as one of the main countries where Chinese automotive exports were heavily introduced during the past ten years.

#### **4.6 Summary of the Theory of Action Chapter**

In short, the researcher followed the procedures recommended by (Yin, 2009) to conduct the case-study analysis.

- *Design the case-study protocol*

The most important thing in this part is to establish what questions one wants answered in the case-study. It should give an overview of the case-study project, field procedures, case-study questions, and guide for the case-study report. In this study, the case-study protocol is relatively straightforward:

- What are the antecedents supporting Chinese to build strong brand equity?
- How is COO affecting the brand equity of Chinese brands?

- *Conduct the case-study*

Conducting a case-study meant preparing data collection, conducting interviews, and analyzing content. Due to the nature of the study, it was not practically possible to do any interviews with good statistical quality. However, interviews were conducted with industry experts to understand their view

of the automotive industry. Moreover, other interviews were conducted with academic marketers to get their opinion on the conceptual model from a marketing and branding perspective.

The remainder of the data collection was done through documentation and archival records as previously stated.

- *Analyze case-study evidence*

It is recommended to have a general analytical strategy to guide decision making regarding what will be analyzed and for what reason. This part is covered in Chapter 5. Based on the data collected, each case was separately analyzed to allow for deeper real analysis, and then the similarities and differences of both companies were analyzed. This analytical strategy was developed from the very beginning of work on the thesis.

- *Develop conclusions, recommendations, and implications based on the evidence*

From the perspective of readers or users, it is important to develop convincing conclusions and give concrete recommendations based on the analysis conducted. In this thesis, the conclusion is the final judgment of the research questions, and the recommendations are some suggested strategies to make Chinese brand creation successful. These parts are covered in Chapter 7.

*While designing the case-study the procedures presented in Table 4.1 were followed to assure the case-study is viable and well tested:*

<b>Test</b>	<b>Case-study Interpretation</b>	<b>Research Phase</b>
<b>Construct Validity</b>	<ul style="list-style-type: none"> <li>• Multiple sources of evidence were used: secondary research (archiving, research and industry reports, annual reports, business reviews), and primary research (industry experts interviews, academics interviews and practitioners focus groups).</li> <li>• The case-study draft was reviewed by industry and academic experts to assure key information is well covered.</li> </ul>	<ul style="list-style-type: none"> <li>• Data Collection</li> <li>• Data Composition</li> </ul>
<b>Internal Validity</b>	<ul style="list-style-type: none"> <li>• Rival interpretations were addressed in the two cases under study.</li> </ul>	<ul style="list-style-type: none"> <li>• Data Analysis</li> </ul>
<b>External Validity</b>	<ul style="list-style-type: none"> <li>• The researcher used replication logic across the two cases.</li> </ul>	<ul style="list-style-type: none"> <li>• Research Design</li> </ul>
<b>Reliability</b>	<ul style="list-style-type: none"> <li>• The researcher developed a case-study protocol.</li> <li>• The researcher developed a case-study database as a prelude for a second analysis by an external researcher.</li> <li>• Data source triangulation</li> </ul>	<ul style="list-style-type: none"> <li>• Data Collection</li> <li>• Data Analysis</li> <li>• Data Analysis</li> </ul>

**Table 4.1: Procedures Followed Throughout the Case-study.**

## **CHAPTER FIVE: RESEARCH ANALYSIS AND FINDINGS**

The concept of brand equity is barely 20 years old and has only recently become the subject of academic research. Today, many relations remain untested. Most research studies deal with the linear relations of different variables and their relations with the concept of brand equity; while the relations between brand differentiators as antecedents of brand equity have not been well analyzed. It has been argued that progress in this field has been slow due to researchers trying to find a single measure to incorporate all elements of brand equity. Yet, since the equity of a brand is not in practice separable from the value of the product and the rest of the firm, it is important to include elements such as product quality, perceived value, geographical presence– as well as the effect of COO and other aspects – while studying their effects on brand equity.

A report from Labbrand – a leading China based branding consultancy – in 2012, revealed that from 2001 to 2010 the Chinese automotive industry has seen exponential growth; at a rate much higher than the global annual growth figure of 25.3%. This growth has enticed more than 100 local and foreign auto brands to invest in building their brands in China to reduce the competitive landscape.

The purpose of this qualitative case-study is to investigate how the Chinese are creating their brands by examining two growing Chinese automotive brands: GEELY and BYD. Five questions reflecting the possible relations under study will be addressed.

The researcher has conducted a total of 12 in-depth interviews: eight with automotive industry experts and four with academics. Moreover, two focus groups were conducted with marketing practitioners.

Interviews were recorded, when possible, and later transcribed for further analysis. A typical interview averaged 60 minutes, while the focus groups took an average of 90 minutes.

In addition, the researcher analyzed reports, documents, articles, papers, content, and books to describe the case-studies and answer the research questions under study.

This chapter is organized as follows. First, the researcher will present an introductory section to illustrate the research methodology, the descriptive analysis and the sample characteristics when relevant, and then the inferential analysis will follow divided into four main parts. Part I will tackle the Country of Origin analysis and its influence on the development of brand equity, illustrating the first question with its subsequent themes. Parts II and III will explore the two cases under study: **GEELY Automobile Holding Limited** (referred to hereunder as **GEELY**) and **BYD Company Limited** (referred to hereunder as **BYD**). Each case will be dealt with separately, following the theoretical interpretation strategy, in order to answer the remaining research questions.

Part IV will explore some further analysis, demonstrating the differences and similarities of GEELY and BYD, as well as some rival interpretation discussion.

For the purpose of research reliability, a section titled Pre-Coded Analysis for reliability will follow the researcher's analysis. This section was developed by an external researcher to fulfil the objective of triangulation. A pre-coded database was developed including all relevant sources for each question, and the external researcher conducted an in depth analysis for the three accepted questions as a means of reliability for the questions under study.

Ten research analysis themes were generated to cover the five questions under study. It is worth noting that one question will be explored for both brands together, due to the general aspect of its meaning. The first question will be explored at the beginning of the GEELY case-study: the country-of-origin effects on brand equity. The remaining four questions will be explored in each case.

## **5.1 Introduction**

China's automobile industry has been in rapid development since the early 1990s. China's annual automobile production capacity first exceeded one million in 1992. By 2000, China was producing over two million vehicles. After China's entry into the World Trade Organization (WTO) in 2001, the development of the automobile market further accelerated. Between 2002 and 2007, China's national

automobile market grew by an average of 21 percent, or one million vehicles year-on-year. In 2006, China's vehicle production capacity successively exceeded six, then seven million, and in 2007, China produced over eight million automobiles. In 2009, China surpassed the United States as the world's largest automobile producer by volume. In 2010, both sales and production topped 18 million units, with 13.76 million passenger cars delivered, in each case the largest by any nation in history. The number of registered cars, buses, vans, and trucks on the road in China is expected to exceed 200 million by 2020. In a study conducted in 2012 by the consultancy firm McKinsey & Company it estimates that China's car market will grow tenfold between 2005 and 2030. As such the researcher chose the automotive industry in China with a focus on Chinese passenger cars brands while studying specifically GEELY, and BYD.

## 5.2 Research Methodology

The below diagram illustrated in Figure 5.1 shows the research methodology:

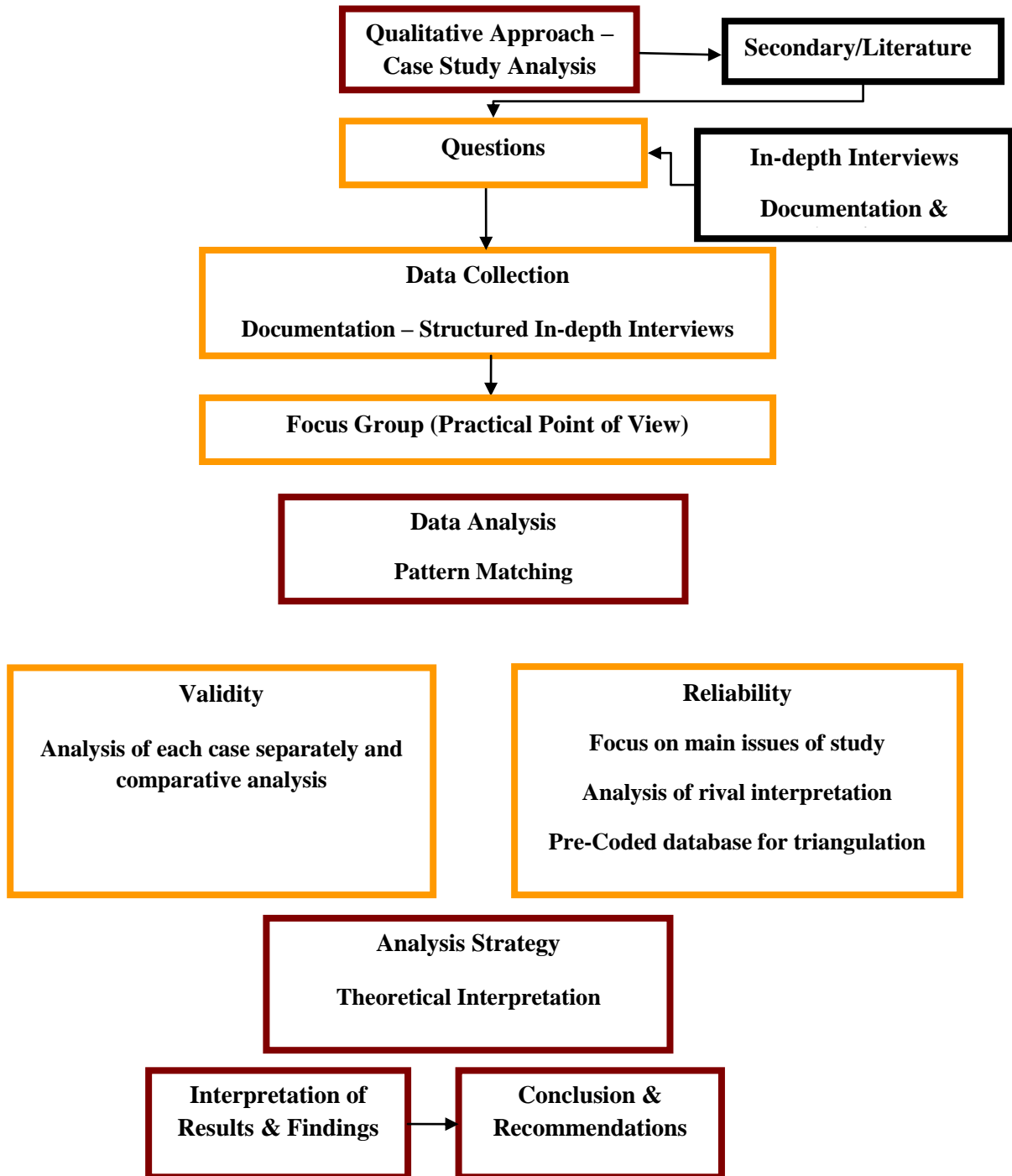


Figure 5.1: Research Methodology Diagram

The chapter will start by reporting the descriptive analysis representing the sample characteristics, and then inferential analysis and reliability analysis will follow.

### **5.2.1 Descriptive Analysis**

As previously stated the researcher depended mainly in the data collection on secondary sources of information and archives; such as articles, annual reports, specialized reports and documents; as well as structured in-depth interviews with automotive industry experts, and with marketing and branding professors representing the academic angle, and focus groups with marketing practitioners.

The researcher asked the industry experts about specific questions related to the Chinese automotive industry and more specific passenger cars of both GEELY and BYD. What was measured was the perception of the industry experts about the Chinese automotive industry, the Country of Origin effect, the relation between the Chinese brand equity and selective marketing mix elements representing the antecedents of brand equity as previously stated. Although these perceptions may not reflect reality 100%, they are more important than reality, since human interactions are generally based on perceptions rather than on reality (Solomon, 2004).

Different in depth-interview guides and focus group guide were developed, since the industry experts differ than academics and practitioners.

A cover letter explaining the purpose of the study and ensuring the privacy of results was sent to 20 interviewees with follow up calls to further explain the purpose of the interview and set appointments.

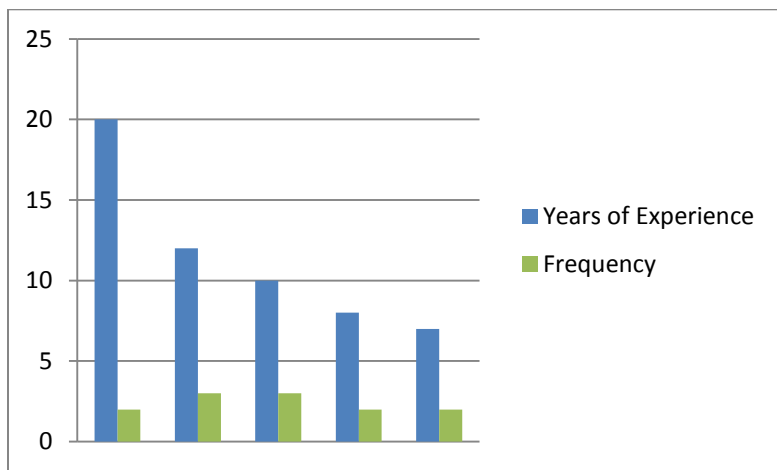
12 in-depth interviews: eight with automotive industry experts and four with academics were personally administered and concluded successfully. In addition to two focus groups with marketing practitioners. The researcher thought it will bring more depth to the research under study to share the model with marketing practitioners through focus groups for two reasons;



- c. To assure the conceptual model is well grounded so both the academic and the pragmatic side were covered.
- d. To get the best practices angle regarding the research questions under study

### 5.2.2 Sample Characteristics

The following figure will present the demographics characteristics of the industry experts:



**Figure 5.2: Industry Experts' Years of Experience**

As illustrated in Figure 5.2 we can observe that the industry experts' years of experience range from 38 years to 15 years of experience in order to assure that both accumulated experience and up to date knowledge are represented.

Figure 5.3 represents the years of experience of the marketing practitioners:

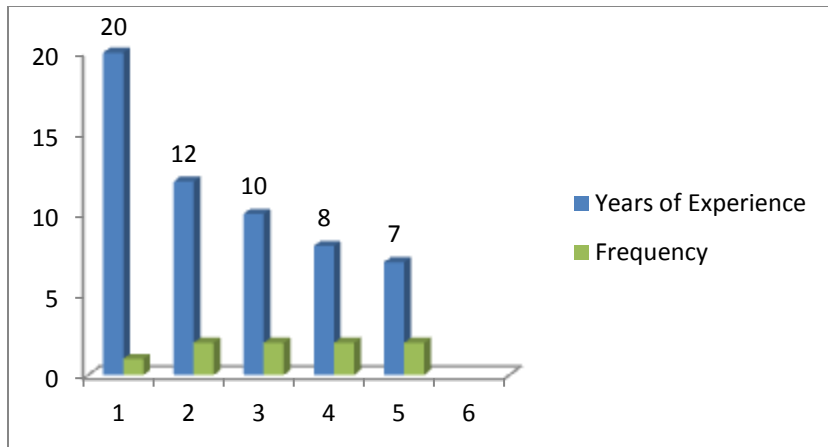


Figure 5.3: Marketing Practitioners' Years of Experience

### 5.2.3 Inferential Analysis

For case study analysis, one of the most desirable techniques is to use a pattern-matching logic. Such logic compares an empirically based pattern with a predicted one (or with several alternative predictions). If the patterns coincide, the results can help a case study to strengthen its internal validity (Trochim, 1989). And since the case study of GEELY and BYD is an explanatory one, the patterns may be related to the antecedents or the sources of brand equity within the research.

The Data Analysis strategy will depend on the theoretical interpretation which is the first and most preferred strategy (Yin, 2009). The Data Analysis structure will follow the original objectives and design of the case study questions as previously explained in Chapter four.

## **PART I: CHINESE COUNTRY OF ORIGIN AND ITS EFFECT ON BRAND EQUITY**

The following will explore the effect of COO on Chinese brand equity and will consist of two themes.

### **Question # 1: What is the impact of Chinese Country of Origin on brand equity?**

The negative **associations** of cheapness, poor quality and low safety are deeply rooted in the image of Chinese products. Product quality, technology, quality control, and international joint ventures and alliances, are all steps towards achieving brand equity, yet brand building is key in overcoming the negative impact of COO.

The Lenovo acquisition of the IBM PC division is considered to be the turning point in Chinese brand building. Though part of their brand equity is owed to IBM brand equity, and the brand **awareness** achieved through their sponsorship of the Olympics, Lenovo learned that successful branding cannot be achieved without delivering products of satisfactory quality. This is still a challenge for Chinese brands due to the COO impact.

### **Theme 1: COO and Brand Equity**

Decades of research examination have led to one apparently indisputable conclusion: a product's country of origin does affect consumers' judgments of that product. Only recently has that conclusion begun to be brought into question. With changes in international markets and business models, researchers have started to doubt the impact of the salience of COO information and its impact on quality perceptions and purchase intentions, as well as consumers' real level of knowledge concerning the origins of the brands they purchase (Samiee, Shimp, and Sharma, 2005; Chen, 2004; Thakor and Lavack, 2003).

When Julie M. Pharr (2005) stated that the rapid growth of the WTO, the US membership in the NAFTA agreement, and the worldwide acceptance of the internet as a medium of commerce

irrespective of the Country of origin are all factors helping the diminish of the Chinese COO, this in fact was true and supported Chinese organizations in better exposure to their brands. Consequently, the emergence of hybrid products and multiple country affiliations are in a way whether directly or indirectly reducing the impact of the “Made in China” perception.

It would seem that this dramatic change in COO impact on consumer choices is well timed and well positioned alongside the changes in Chinese markets as they move forward. Consumer inattention to the country of origin of different goods is supporting the wave of Chinese brand building; subtracting from previous negative brand equity and neutralizing the curse of the “made in China” label.

Liu and Johnson (2005) found that "country stereotypes" significantly influence COO assessment. Although they concluded that such stereotypes appear to be spontaneously activated by the mere presence of country-of-origin information in the external environment, without the participants' intentions to use the information when forming product or country judgments. So, the mere absence of “Made in China” could positively facilitate the acceptance of Chinese brands.

As previously mentioned, amongst possible exogenous variables that could affect the COO, a country's level of economic development was tested as a determinant of COO assessment. Verlegh and Steenkamp (1999) showed that differences in economic development had a significant impact on COO assessment, but participation in multinational production did not. The more the economic development of a country is accelerating the more the negative impact is reduced if the COO has negative implications, and vice versa. With the exponential growth of the Asian and Chinese economies it is anticipated that the negative **associations** and **image** of the COO will be diluted by time. Today, Chinese products are all over the globe providing multiple levels of qualities supporting the growth of China and expanding the brand awareness of the Chinese brands.

Some studies have found COO to be insignificant in explaining either product evaluations or purchase intentions when measured along with the extrinsic cues of price and brand name. (Hui and Zhou, 2002; Ahmed et al., 2004; Lin and Kao, 2004)

In contrast, Teas and Argawal (2000) found COO to significantly affect product quality perceptions directly, alongside the extrinsic product cues of price and brand name. While price showed the strongest influence on quality perceptions, brand name and COO were virtually identical in the amount of influence each exerted, and both were substantial. The presence of strong brands induces trust in product quality and purchase intentions, and helps reducing the impact of the COO.

We can presume that the extent to which COO can affect quality perception and purchase intention as we speak is not definitely confirmed and changes according to different contexts.

While brand name and price have conclusively been two of the most popular cues investigated as potential moderators of COO effects, the importance of holistic brand-related constructs (e.g. brand image) in today's global environment has paved the way to various studies thoroughly examining brand as a moderator of COO effects. (Julie M. Pharr, 2005).

The significant effect of brand equity and brand building against the negative effect of COO has been extensively studied, affirming the value of brand related constructs against the negative impact of COO as per Lin and Kao (2004) who further reinforced the concept of brand salience with provocative evidence that COO evaluations operate through a construct labelled 'brand equity', rather than directly on either product evaluations or purchase intentions. The more Chinese are moving towards building strong brand equity, the more the effect of the COO will be minimal.

According to Julie M. Pharr (2005), these findings suggest that COO evaluations may indeed operate through a brand-based construct rather than directly on product quality evaluations or purchase intentions; producing a relatively high effect of brand equity and its impact to reduce the country of origin influence.

Though, several studies show that consumers' involvement level (high versus low) and type (situational versus enduring) moderates the effect of COO on product quality evaluations. (Gurhan-Canli and Maheswaran, 2000b; Ahmed et al., 2004; Lee, Yun, and Lee, 2005) As such, when purchasing a high involvement and enduring product, the impact of COO, whether positive or negative, is significant, the attention of Chinese companies to product quality and their dedication to improving technology, and quality control measures are all steps subtracting from the old perception. As was established in pre-1995 research, and found again in studies from the last decade, the product itself apparently plays a great role in determining the extent to which a COO effect will materialize. Moreover, the studies illustrate that both extrinsic and intrinsic product cues have established the ability to moderate the COO's impact. This counteracts the idea of a general COO effect and proposes that product-related factors should be included as moderators of the COO effect. Moreover, holistic brand constructs, such as **brand image** or brand equity, moderate the effects of COO on product evaluations and purchase intentions. Lastly, the impact of price information in relation to country-of-origin information is not well understood.

Brand's country of origin image is one of factors that consumers consider, when buying products. Brand's country of origin image has a direct effect on brand distinctiveness, brand loyalty, brand **awareness/association** (Narouzi, A., & Hosienabadi, B., 2011). The brand's country of origin image has an important role in promoting the brand equity.

According to research conducted by Moradi, H., & Zarei, A. (2011), the amount of brand loyalty, **perceived quality**, **brand association** and **brand awareness** indicate brand equity. Results show that brand equity influences consumers' brand preference and purchase intentions. (This finding is supported by past research e.g. Cobb-Walgren et al, 1995; Prasad and Dav, 2000; Myers, 2003; de Chernaony et al, 2004; Chen and Chang, 2008; Chen and Liu, 2009.) Consumer perceptions about the COO reflect the originality of the brand and vice versa.

In one of the interviews with an academic professor, he said that when talking about the COO effect it is important to differentiate between Business to Business (B2B) and Business to Consumer (B2C). “When we discuss the effect of the Chinese COO on business it is well understood now that on the manufacturing level China is capable of delivering multiple levels of quality. It depends how much the industrial buyer is willing to pay. So the decision is the decision of the global buyer and what level of quality he demands, and the Chinese then can deliver the multiple levels requested. Now we find top quality brands manufactured across all industries in China. They are making quality products and selling them around the globe.

For sure the effect of China has chopped up the notion of low quality cheap products, and the effect of Made in China in my opinion has been negated in the Business to Business sector.”

He added, however, that on the consumer side, the negative effect of COO has not been negated yet. “What is holding it back are the manufacturers who do not have the right manufacturing equipment, or experience. They are pure traders, they go to China to manufacture over there under their own brands and then they go back sell the products into their local markets. Typically, their main motive is to come up with a product that is so inexpensive that will gain quick market share with minor investment in marketing. So, for them, China is their cheapest possible option. However, the product delivered is of low quality and it backfires on the COO brand more than it backfires on the individual brand itself. The brand itself fails, but what remains is the negative impact of the “Made in China” notion.”

However, studies by Chung, et al (2009) and recent research by Wong, et al (2008) in China highlight the importance of manufacturing COO effects on young people. They say that due to globalization young people are used to seeing products from around the world and rarely relate to the owner of brand; therefore the country image has no great effect on them. The researcher presumes the truth of this will be proved by further studies in coming years, and that the negative effect of COO image

when purchasing products will change dramatically in favour of any Chinese and Asian brands that currently have a negative COO association. The coming generation has not been exposed to the same experience and perception of Chinese products that other generations have. On the contrary, they have experienced firsthand products and services of Chinese origin – local products, as well as foreign brands made in China, such as Ipad and Ipad – that deliver high quality, so that the manufacturing country of origin will have no impact on their purchase decisions. It is beyond doubt that in the coming 10 years the negative impact of the COO will dilute and will not have the same influence on Chinese brand equity – be it **brand awareness**, **brand perceived quality**, or **brand associations** – that it has today. In Ettenson, et al. (1988) conjoint analysis for examining the effect of COO in relation to a “made in the USA” campaign, they revealed that the effect of COO is relatively limited before and after launching the campaign. These findings designate that other product cues such as price and quality may have significant effect on consumer product evaluations than COO.

In a research conducted by Interbrand in 2008, it was revealed that the COO effect differs from industry to industry. In some, such as the automobile and airline industries, 60 -70% of respondents foresaw a high impact for COO; while foreseeing a lesser effect regarding the manufacture of personal computers, laptops, mobile phones and other electronic devices. Though, this report placed a great impact of the COO within the automotive industry, automotive industry experts interviewed for this study unanimously agreed that the negative effect of China’s COO reputation is diminishing with time, and that many factors – such as the introduction of Chinese self-branded cars to Europe and the US – will help to eliminate it completely. According to the General Manager of Bavarian Auto (the main distributor of BMW and Brilliance in Egypt): “If the Chinese cars meet the tough standards of the US and Europe they will get the original stamp of the industry. This is when the negative effect of Chinese COO for the automotive industry will start to diminish.”



Regarding the introduction of Chinese products to Egypt and the impact of Chinese COO, the Sales Director of Artoc Group, one of the leading foreign brands in Egypt, said: “Five years ago, when we worked with Chery as a sole distributor, Chery had no export experience. We were faced with many challenges in introducing the brand to Egypt. Today, Chery, with its brand Esperanza (renamed in Egypt) is one of the fast growing brands in this country. “The introduction of a Chinese brand to the Egyptian market was not hard, since the car was addressing a price-sensitive segment and accordingly the impact of Chinese COO was not much felt, especially that the communication played on the aspirational aspects. Our challenges were mainly with spare parts availability, export rules and regulations, time to export; all were mainly on the logistical side.” He anticipated that with the Chinese focus on R&D centres and investment in quality and safety, the impact of the COO effect will be reduced remarkably.

The Deputy General Manager of Brilliance emphasized the attention of Chinese brands on quality and the investment attributed to research and development. He said: “In less than five years, consumers will not be able to differentiate between the BMW and the Brilliance brand. The Chinese are very detail-oriented, and they are working very hard and very fast on improving the quality of their products and their designs.” He added that the joint venture of Brilliance with BMW is helping reduce the impact of Chinese COO. “Our investment as BMW with Brilliance positioned the brand in a completely different place. The effect of Chinese COO, in my opinion, is fading out and the negative connotation is reducing day after day.”

It seems that globalization is having a great effect and recent studies attribute little significance to COO influencing purchase behaviour. This trend would make it easier and quicker for the Chinese to create successful brands.

Whether or not it is a coincidence, the 2008 global economic crisis acted in favour of Chinese automotive players; the acquisition of Volvo was an evident example helping the improvement of

Chinese brand equity. One thing we can deduce from the industry experts' interviews is that this news alone put GEELY on a different level in terms of **brand awareness, perceived quality, brand association** and therefore brand equity. The GEELY acquisition of Volvo marked an immediate increase in the brand equity of GEELY – and the Chinese auto industry in general – yet with no actual investment in branding.

Julie M. Pharr (2005) depicted the importance of brand-based constructs in moderating COO evaluations; showing that the influence of COO evaluations occurs through product evaluations, perceived product value, brand equity, or brand image, and not directly on purchase intentions. She stated:

“If a majority of today's consumers are not using COO information as a decision diagnostic, it would appear that either past research has inflated the influence that country of origin has on consumers' product judgments and behaviour (by using experimentally manipulated COO cues in laboratory settings) or that the construct is subject to decreased salience in today's era of global brands.”

Recent studies show that where brand origin information had to be acquired at the point of purchase, through active search or accessed from memory, the role of country of origin in brand choice was nominal at most. (Samiee, Shimp, and Sharma, 2005; Liefeld, 2004; Madden, 2003)

## **PART II: GEELY CASE-STUDY**

This section will analyse the GEELY case-study to explore the remaining four research questions under study. The section is divided into two sections. The first is an introductory profile of the company, and the second section will explore each question.

### **GEELY A Modest Start ... A Brilliant Future**



**Exhibit 5.1: GEELY Logo**

GEELY was founded in Taizhou in Zhejiang province in 1986. GEELY is regarded as the brand of automobiles manufactured by GEELY Automobile Holdings of China, listed on the Hong Kong Stock Exchange (Code: HKG:0175). GEELY Automobile Holdings is owned by its parent company, the GEELY Holding Group, which is controlled by its chairman, Li Shufu.

GEELY is one of the four largest independent private automobile manufacturers in China, along with BYD, Chery, and Great Wall. When the state-owned enterprises (SOE) and partly state-owned manufacturers – such as SAIC, FAW etc – are listed, GEELY is approximately the tenth largest in China.

GEELY launched its auto manufacturing business in 1997. At that time, it was the first independent and the largest private automobile manufacturer in China. In 2005, it was listed on the Hong Kong Stock Exchange. Today, GEELY is headquartered in Hangzhou, Zhejiang province, and operates eight car assembly and power-train manufacturing plants around China.

GEELY International Corporation was founded in July 2002, with a registered capital of RMB 20 million. With a direct import and export licence, it is a large-scale subsidiary of the GEELY Group and the exclusive authorized exporter of GEELY brand automobiles. In 1997 it started by exporting a large proportion of its automobiles to Africa, the Middle East, East Europe, and Central and South America. After 10 years of operation, GEELY stood out as the second largest auto manufacturer in China. It focused on the brand idea of “creating cost-efficient life”.

Today, GEELY is a pioneer among Chinese independent automobile brands, and the GEELY Holding Group is the biggest and longest established private automobile manufacturer in China. How did GEELY do it? What factors are adding to their future growth? Can we anticipate that product quality, perceived value, geographical presence, and joint venture and co-branding would collectively and positively act as brand differentiators and antecedents of brand equity?

## **Theme 2: Marketing and Branding**

Nominated by Interbrand as a prominent brand with potential for brand valuation ranking, GEELY is making breakthroughs within the automotive industry and reaching out steadily to the global market.

In an Interbrand survey of over 700 business and marketing professionals around the world, GEELY was seen viable to act as an ambassador for China and was ranked 49<sup>th</sup> among the best 50 brands in 2010, with a brand value of 1.20 billion RMB.

GEELY is like other Chinese brands in that it started with low-end products. Up till now it retains this segment, while in addition it is approaching new ones and revamping its product portfolio and branding strategy.

GEELY began exploring overseas markets in 2003. Faced with the complexity of new competition, company chairman Li Shufu suggested a new strategy called “Taking Exportation as the Guide”, aimed at “letting GEELY automobiles run into the world”. He said that two thirds of the company’s automobiles were to be destined for the world market. According to Li Shufu’s plan, the productivity

of GEELY will reach 2 million in 2015; of these, 1.4 million will be exported or manufactured overseas, giving the company 2.5% of the global market.

In a report published by KPMG in 2011, Bernd Pichler, Managing Director (Commercial) Volkswagen (China) Import Co. Ltd said: “While it has incredible growth potential, the Chinese market is also fiercely competitive. Foreign OEMs tend to produce higher quality, premium vehicles, with local firms aiming for the more mass market, affordable vehicles. However, the whole market is changing quickly, and because non-Chinese businesses have to work through joint ventures, there is a considerable knowledge drain to the local partner. This is helping Chinese automakers catch up fast and move up the value chain.”

GEELY announced in their corporate strategy, published in 2011, that they will adopt a "global strategy" and that they are planning to become one of the World Top 500 enterprises through innovation and **brand image** building.

Yang Jian, President of Zhejiang GEELY Holding Group Co. Ltd., said that the company is making breakthroughs in overseas mergers and acquisitions, and progress in brand building. For instance, GEELY made a special appearance at the Beijing International Auto Show in 2010, with 39 car models of three branch-brands and 14 engines. GEELY also donated 22 million Yuan (US\$3.32 billion) in aid for the Qinghai earthquake, fulfilling its brand’s social responsibility. The company won the Green Company of China award for three years running, the Most Respectable Enterprise in China award for five years in a row, and entered in the Chinese Top 500 Enterprises list for eight consecutive years. Li Shufu was honoured as Person of the Year in the Domestic Auto Industry in the 21st Century, named one of the 200 Most Influential Enterprise leaders in China, and Leader of Enterprise Cultural Construction in 2011, making him one of the most influential Chinese entrepreneurs in the world. GEELY purchased 100% of the equity of Volvo Group on August 2,

2010. This moved the company to a new stage in its global evolution and attracted attention all over the world.

From a marketing and branding perspective, GEELY has used the product positioning and distribution of its three main branch brands (GL Eagle, Emgrand, and Englon) to form a unique brand identity. It has expanded new businesses – such as car rental, second-hand car deals, etc – and built an overseas marketing network to access new markets. In 2010, progressive steps in brand management, both in China and overseas, saw GEELY's emphasis switch to "Brand competition" instead of "price competition", by developing new marketing and service models to improve marketing ability and service quality.

The Volvo acquisition greatly added to GEELY's brand equity, demonstrating that a Chinese brand could acquire a Swedish brand renowned worldwide for its strong brand equity, positioning, R&D, and quality. GEELY paid Ford \$1.8 billion (\$1.6 billion for a 100% equity stake and \$200 million for a credit note), and added \$900 million to keep Volvo afloat; a total of \$2.7 billion. Volvo made a \$934 million loss in 2009, and GEELY has promised to return it to profitability in two years.

The GEELY Volvo deal is based on three actions:

1. GEELY will keep Volvo's management team and will not interfere in the day-to-day management of Volvo, and Volvo will continue manufacturing cars in Europe.
2. GEELY will incorporate Volvo's patented technologies into its cars, for which it will pay Volvo.
3. GEELY will bring Volvo to China by setting up a 300,000 units per annum plant in China.

Many papers, theses, and articles discussing this phenomenal acquisition have been published.

Some analysts predict that the deal will not be a success and that GEELY will not be able to cope with the challenges. In a Harvard Business Blog Network Eduardo Morcillo (2010) identifies some of these challenges as follows:

- GEELY does not have the management skills to incorporate a large company like Volvo. The two companies made almost the same number of vehicles in 2009; GEELY produced 329,000 units, while Volvo made 335,000. However, GEELY's revenue was six times less than Volvo (\$2.4-billion versus \$12.4 billion).
- The Chinese automobile-maker lacks global exposure. GEELY exports a small number of automobiles to other developing countries and has only made few deals overseas.
- Production and marketing synergies are small. With two different platforms and quality standards – a low-cost, low-end producer is different from a premium brand with sophisticated technology – it is not clear what it brings to Volvo.
- The management styles are different in perspectives and hierarchical decision-making.
- Although GEELY claims it will ensure Volvo's independence, the management style of Li Shufu makes this doubtful.

The Volvo deal is not only affecting the brand equity and emotional associations of the GEELY brand, it is also acting as a push button for the Chinese brand to enter a new era of producing high-end brands, and consequently move with the brand to another segment with all its tangible and intangible needs. Li Shufu told the German magazine *Wirtschaftswoche*: "GEELY will develop a new premium brand for the mass market in China using Volvo technologies. However, the new brand will afterward be located under GEELY Automotive." According to the same magazine: "Volvo plans to increase Chinese deliveries to about 200,000 by 2014, up from 47,000 last year." (Reuters, April 5, 2012).

The latest industry news indicates that Volvo will hand over the XC90 to GEELY ahead of a new version launching in 2014. The National Business Daily reports that GEELY will use the XC90 platform to develop yet another high-end brand for the Chinese market with the XC90 being the highlight of the new brand. The agreement to hand over the XC90 to GEELY was signed on March 9, 2012. (China Car Times, May 17, 2012).

An article in Business Insider magazine stated: “A Chinese company has built the most luxurious London Taxi you'll ever see.” This in itself is a plus for the GEELY brand. The deal was signed in January 2007, in an Extraordinary General Meeting, at which the London Taxis International’s shareholders approved a joint venture with GEELY to produce the TX4 in China. Production started in July 2008. GEELY sells the TX4 cab under their Englon brand. Business Insider, May 2, 2012).

When Li Shufu speaks about competition he mainly refers to German premium brands, such as Audi and BMW, especially in China. This is dramatically moving the GEELY brand to a different level of brand perception, **image** and **associations**.

Though the Volvo acquisition and London Taxicab production are only two deals, their scale and the impact they are bringing on the brand equity of GEELY is clear.

The negative associations of poor quality, low safety, and cheapness are deeply rooted in the image of Chinese products. But new business models and open markets, plus investment in R&D, product quality and safety, and international joint ventures and alliances, are all positive steps towards achieving brand equity and overcoming the negative legacy of COO.

For some time China has been regarded as the world’s factory in many industries. The availability of cheap labour, combined with favourable government policies, resulted in China producing for most global companies. But in the past few years, China has also been hogging global headlines for its economic growth, ever-increasing wealth index, and improvements in technology. With its robust manufacturing and outsourcing sectors, Chinese exports have been contributing to China’s



phenomenal economic growth. With increasing employment there has been an explosion of the middle class and the affluent class which is driving consumption. The number of billionaires and millionaires in China has risen consistently in recent years. The Chinese luxury goods industry is predicted to become the biggest in the world in the next couple of years. The country is also making impressive strides in the research and development, and technology sectors. All these factors are contributing to a positive image for China.

**Thus the conclusion and the above analysis strongly supports the first research question, with the assertion that Chinese Country of Origin is no longer an obstacle to building brand equity.**

## **Question # 2: How is product quality supporting the brand equity of Chinese brands?**

The following will address a question related to the antecedents of brand equity to stand on the effect of product quality on the brand equity of Chinese brands, and will consist of three themes.

### **Theme 3: Product Quality**

When the Brand Manager of GEELY Egypt was asked about Chinese brand development, he said: “Chinese brands are going on the same journey that Korean and Japanese brands did before. The consumer’s brand perception is very similar, with the suspicions and associations with poor quality and low safety standards. Today the Japanese and Koreans have made it safely into the world of accepted brands and the Chinese are taking their turn.”

The Chinese government is now urging some of China's biggest companies to sell branded products abroad and many brands have their own rationale for establishing branded products in developing countries. The home market is extremely competitive and puts continual pressure on prices. Every year dozens of new car models come on to the market. By the end of 2005, 125 models were current in China, with the expectation that another 28 would be added within a year. The profitability of branded products is far higher than those of OEMs, and their presence in foreign markets is putting positive pressure on the Chinese to innovate and improve, thus moving them away from their image as producers of cheap goods.

Interbrand’s 2011 report stated: “Chinese brands are moving from following, copying, and learning from competition to creating their own path”. This is confirmation from a leading branding consultancy firm that the phase of copying products is declining, and that the Chinese are trying to find ways to differentiate through product quality and innovation.

This change began when Li Shufu announced that GEELY should: “Manufacture good automobiles which common people could afford”. Subsequently, in 2002, GEELY introduced two series of low-level products – Haoqing and Meiri – awakening the demand dominated by personal purchasing.

**Branding: the panacea to get dispel the commodity trap**

Early GEELY models were generally copies of others but, in recent years, it has expended great efforts in advancing its technology and has self-developed several original products, such as GEELY FC, GEELY Panda, and the Emgrand series, amongst others. Originally GEELY produced and marketed five brands with more than 30 models.

Today GEELY has completed a major reshuffle of its brands, creating three main ones: GLEAGLE, EMGRAND, and ENGLON. Figure 5.5 represents the key features and attributes of the three brands.

Brand	Models	2010 Sales Volume	Number of Shops At end 2010	Key Features/Attributes
GLEagle	Geely Panda GX2 Free Cruiser Vision	199,198	363	Personality, Style, Passion, Leisure, Fun Core Value: "Creating for the Future"
Englon	Kingkong SC7 SC5	138,619	463	Classic, Rational, Mature, Family, Trust Core Value: "Rational and Low Profile"
Emgrand	EC7 EC8	72,660	212	Solid, Strength, Excellence, Elegance Core Value: "Chinese Wisdom, World Quality"

**Figure 5.4: Key Features and Attributes of GEELY’s Three brands. Source: GEELY Annual Report 2011**

GEELY’s corporate strategy announcement (July 2012) declared that from 2011 onwards its strategy would be ‘QUALITY FOCUS’ through globalization, sustainable growth, and brand management. They also highlighted that they will focus on new product development, by bringing in 42 new models in five years, with particular attention to quality, service, and customer satisfaction. They have successfully exploited key technologies by developing five product platforms, engines, and manual and automatic transmissions.

GEELY have achieved strong results with their successful migration to the “Multi-brand Strategy” and the full implementation of the “Platform Strategy” in product development. This resulted in a significant improvement in the group’s **brand image**, customer satisfaction, product quality, and reliability by 2010. Figure 5.6 represents the three brand divisions in China.

Brand	Models	2011 Sales Volume	Number of Shops At end 2011
GLEagle	Free Cruiser Geely Panda Vision GX2 GC7 GX7	177,730	336
Emgrand	EC7 EC7-RV EC8	106,676	245
Englon	Kingkong TX4 SC7 SC5-RV	137,205	395

**Figure 5.5: Three Brand Divisions in China GEELY Automobile Holdings Limited – Annual Report 2011**

Since 2008, with the full employment of platform strategy in the GEELY group’s new product development, attention to product quality and significant investment in the upgrading of production facilities, quality control system, and supplier base, the group’s six to eight new models planned for 2011 should be able to demonstrate major improvements in design, quality and safety. The group’s product development currently focuses on the development of five core technology platforms, 15 product platforms and 42 brand new models by 2015. This is aimed at increasing the proportion of shared parts between different models up to 70-80%. This is aimed at achieving better economies of scale, much lower product development costs, a shorter development cycle, and easier and more effective quality control.

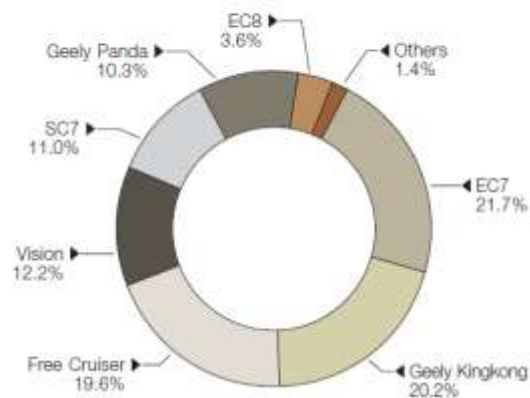
Moreover, GEELY started mass production of its new 6-speed automatic transmissions at its new plant in Xiangtan in August 2011. The new gearbox was first installed in the GLEagle, the mid-size model GC7, launched in the Chinese market in December 2011. Market response to the GC7 and its new 6-speed automatic transmissions has been upright so far. GEELY will gradually expand the production volume of automatic gearboxes in its Xiangtan plant and planned to install it in another car of their mid-size models in 2012. In addition to the Xiangtan plant – which has an annual production capacity of 100,000 units – GEELY is building another two plants for automatic transmissions in Jining, Shandong Province, and in Chongqing City. All of which will allow for better quality levels, and quality measures.

In 2011, GEELY had achieved its overall quality control targets by reducing the amount of warranty claims per car and significantly lowering product defect rates.

The group has shifted its sales from low-priced models, like the Maple and the Free Cruiser, to higher-priced models, like the EC7 and the SC7 as illustrated in Figure 5.7 and added more high-priced models like the EC8 series of large-size sedans. GEELY's ex-factory average sales price improved significantly in 2010, rising 12% to RMB 45,000.

According to the Global Times (December 2011) reported: “GEELY will adopt a ‘global strategy’ in 2012, planning to become one of the World Top 500 enterprises through innovation and brand image building. It will shift its focus to ‘quality’, changing from ‘rapid growth’ to ‘steady growth’, transferring to ‘brand line management’ from ‘product line management’”.

Breakdown of Sales Volume by Models in 2011



Models	Sales Volume (Unit)
EC7	91,693
Geely Kingkong	84,969
Free Cruiser	82,702
Vision	51,478
SC7	46,349
Geely Panda	43,250
EC8	14,983
Others	6,187
<b>Total</b>	<b>421,611</b>

**Figure 5.6: Breakdown of Sales Volume by Models in 2011 - GEELY Automobile Holdings Limited – Annual Report 2011**

GEELY is still planning to launch new models. Comparing GEELY’s start-up designs show a dramatic change in the market segment addressed, the product category, product quality and, accordingly, the new brand positioning, as GEELY pursues the elevation of its brand image.



**Exhibit 5.2: GEELY’s Models Launched in 2012**



**Exhibit 5.3: GEELY Panda**

When GEELY's Emgrand was launched it was set to be its first independent model, positioning the brand in the medium-high end market. This brand and its new model paved a road towards building a new image of Chinese automobiles. It was also a milestone in the group's product R&D and marketing strategy transformation. Featuring "luxury, steadiness and power", the Emgrand brand released by GEELY is a medium-high end product with the core values of "Chinese wisdom, world quality". The management announced: "With the release of the Emgrand brand, GEELY is planning to use this car to establish a new image of GEELY automobile or even Chinese automobile."

According to the plan, the Emgrand brand will cover all categories at GEELY; such as medium-high end cars, SUVs, MPVs, and high-end pick-ups. All the models will play an important role in the automobile industry of China through their great competitiveness.

The Emgrand logo was probably the first one of the group's brand logos to be designed with a specific concept and meaning. Developed over two years, it consists of three pieces of ruby and three pieces of onyx. It is meant to reflect the core values of the brand. It is also a symbol of the six spirits of GEELY: teamwork, learning, innovation, struggle, realistic style, and pursuit of perfection.

The Deputy General Manager of Brilliance, Egypt, said in an interview: "The movement away from the low-level price end is increasing. The Chinese have realised the value of addressing upper segments with new product categories, and this is taking their brands to another level of image ... Also, the Chinese are investing heavily in improving the raw materials they use to support the quality focus strategy they are trying to achieve."

In 2011 the corporate strategy was tagged by the new direction "Quality GEELY", aimed at leveraging this concept to further develop the brand image of GEELY, to differentiate it, and add transparency to its quality after-sales service.

Interestingly enough, in his interview the Managing Director of GEELY in Egypt stressed that: GEELY is now building its brand image by developing the 'Quality GEELY' imperative, where

quality is part of each and every process: the product development process, the innovation process, the service process, and the brand building process.”

#### **Theme 4: Technology Innovation and Safety**

Technological breakthroughs have led to the launch of new car models, such as the HRV Cross, the EC718 (CVT), the EC8, the SC5-RV, and the GX2. The R&D of four G13T engines has made significant progress. The great breakthrough was made in hybrid power technology. The G-PLM R&D system has improved the efficiency and quality of R&D.

The first construction stage of the Automobile Security Technology Lab has been completed and it can now conduct New Car Assessment Programme (NCAP) crash tests. By law, all new car models must pass certain safety tests before they are sold. Euro NCAP is a European organization, composed of seven European government representatives, as well as motoring and consumer organizations concerned with providing the safety status for new cars. The C-NCAP is the Chinese arm for safety measures and crash tests.

The Euro NCAP’s grading is harsher than the C-NCAP’s; however, the C-NCAP planned to introduce a new standard towards the end of 2012. This would introduce new measures to bring it more in line with European standards; the rear-impact (whiplash) test and pedestrian test would be introduced as optional tests. Recently the Roewe 350, the 550, the GEELY Panda, the EC718, and the Chery A3, have all achieved a five-star level.

GEELY has opened the Zhejiang Automobile Security Technology laboratory, where the first scholarship committee meeting was held and the BMBS second generation car prototype was developed. GEELY applied for 1,516 patents in 2011 – a 61.4% growth year-on-year – of which 1,088 got patent authorization. The group has so far applied for 3,254 patents in total in China; with 1,882 already given authorization. The Innovation Project Construction of the GEELY Technology



System earned second place in the National Scientific and Technological Progress Prize (the first place was vacant); GEELY is the only auto company ever to win it.

The above achievements reflect the long-term ambition of GEELY's founder to become a leading international automobile group with reputation, integrity, and customer respect.

The group sold a total of 421,611 sedans in 2011. GEELY say that their rapid growth has been built on careful planning and innovation, and that GEELY's independent R&D in vehicles, engines, transmission, and hybrid technology, indicates that it is the only Chinese car manufacturer to develop its own range of engines, including eight series of engines ranging from 1 litre and 1.8 litres.

Though some analysts still see GEELY as a Chinese upstart, barely known in the outside world, it is worth noting that some also refer to it as a phenomenal example of a Chinese automaker.

Regarding innovation and the zero defect system, the Emgrand and the Gleagle scored higher than other cars in quality assessment, according to the J.D. Power IQS report. The Emgrand EC718 was awarded the Reliable Auto Brands of the Year title in the first vehicle quality general assessment in China. The other two automakers that earned the prize were FAW Volkswagen and GAC Toyota.

Regarding human resource capitalization and corporate social responsibility towards its employees, GEELY has developed the idea of encouraging its employees to innovate, and this has led the brand to significant economic and social benefits. In 2010 there were 236,608 innovation proposals from employees – growing at 159 % year-on-year – with a profit of 1,800 million Yuan.

Even though it is the group's first step into the large-size sedan market, the Emgrand EC8 is getting positive feedback from the market; achieving an average monthly sales volume of close to 1,300 units in 2011, and reaching a monthly sales volume of over 2,200 units in the first two months of 2012.

GEELY's attention to safety and quality standards is borne out by the Emgrand EC8 achieving a five-star rating in the C-NCAP crash test in 2011; making it one of the best scoring models amongst the 150 models ever tested by the C-NCAP. The group's achievements in upgrading safety standards

were further endorsed by the Euro NCAP in November 2011, when the Emgrand EC7 received a 4-star rating in crash-tests; making it the highest rated vehicle from China tested by the organization.

In an interview, the Deputy GM of one of the Chinese Distributors in Egypt said that product development and, more specifically, product quality is a very important element that the Chinese are very conscious of. This is helping them to dramatically move away from the perception of cheap products and is building their brand. He added that the attention of Chinese car manufacturers to the SQS level (Safety, Quality, and Service) is increasing day-by-day. Moreover, GEELY's movement in the product category, by addressing the higher market segment, is adding to their equity. The attention to safety elements, such as improvement in the Euro NCAP crash tests, is helping amazingly. Today, no car can come out of China without five to six months of quality tests and quality control, he concluded.

It is worth noting that the joint venture between Volvo and GEELY is driving the growth of GEELY. Volvo is well known for its safety positioning, safety measures, and standard-leading innovation. Consequently, GEELY is being exposed to a wide pool of safety innovation standards which will support the improvement of the group's safety measures and therefore the brand's perceived quality.

The Head of the Automotive Trade Association in Egypt said: "The Chinese will lead the world in the near future through product innovation ... They started with a high volume strategy to achieve spread and scale; now, their product is becoming accessible all over the globe. Now they are moving in another direction by addressing product quality and the higher segments. It is only a matter of time for them to enforce their price points and establish their brands."

The lack of independently developed automatic transmissions was always a restraint for Chinese auto manufacturers. But now, GEELY has developed its own six-speed autobox. So, instead of using parts from other manufacturers, the group's autobox is a cornerstone for all Chinese auto manufacturers. "Following a report that VW's transmissions are not doing well in China, it's good to see that 'new'

automakers are investing in R&D and not just stagnating and copying. The new gearbox will equip most of GEELY's line-up of cars and will be available as an extra option" (autoevolution, June 2012). GEELY is also developing its own turbocharged engine technology; the new engine will be first used in the Englon SC5-RV (small city car). Moreover, GEELY is developing a safety system by producing its own tire pressure sensors. Some have suggested that there is, in fact, a Swedish hand behind all this progress, and they do seem to have taken full advantage of the acquisition of Volvo. (autoevolution, June 2012).

At the 2011 Beijing Automotive, GEELY demonstrated a real change in their safety measures. In November 2011, GEELY's Emgrand EC7 became the first Chinese car to reach a four-star safety rating in Euro NCAP. (GEELY's was the second Chinese car tested by the organization.)

According to Euro NCAP's Secretary General, Michiel van Ratingen: "These results mark a milestone for the Chinese automotive industry. It is a clear sign that Chinese car makers are building on recent experiences and rapidly investing in better vehicle safety. Even with the upcoming increased demands, five stars are expected to be within reach soon." Safety, according to the brand, is now part of their DNA.

GEELY's attention is not only concentrated on product quality, innovation, and safety, but also service quality. New service models will be introduced to improve marketing ability and levels of service quality. Already its after-sales service system has been awarded the Golden Wrench in 2010; an award organized by Sohu Auto and the Auto Driving & Service Magazine, aiming to honour passenger car makers with outstanding performance in service quality, customer satisfaction and service level. Also, the GEELY Service Call Centre was awarded the Best Customer Service and Best Customer Return Visit titles by the Ministry of Industry and Information Technology, beating the competition of 400 other enterprises.

### **Theme 5: Hybrid and Green Vehicles**

Hybrid electric vehicles or (HEV) run partly on petrol and partly on electrical power. HEVs are much talked about in China and around the world. The Chinese government has recently started pushing Chinese auto makers to produce them and aims to create the capacity to annually produce 500,000 "new energy" vehicles, such as battery electric cars and plug-in hybrid vehicles. The plan is to increase sales of such new-energy cars to account for about 5% of China's passenger vehicle sales. Twenty Chinese cities have been promised that for each hybrid vehicle used in the public service sector they can get a subsidy of up to 50,000 Yuan (\$7,300), which will help them save energy and reduce carbon dioxide emissions. The government is also considering subsidizing each private hybrid vehicle up to 60,000 Yuan (\$8,800).

The GEELY hybrid automobile was first announced at the 2010 Beijing International Automotive Exhibition. Priced at 10,000 Yuan (\$1,470) it measures no more than three metres long and is designed for inner-city travel.

GEELY is also involved in determining the feasibility of developing electric-powered London Black Cabs. Manganese Bronze, the original maker of the London Taxicab, of which GEELY has part ownership through a joint venture, says it has held talks with UK government officials about this and has signed an R&D agreement with Tanfield Group, an electric vehicle manufacturing and engineering specialist.

Although GEELY's involvement in hybrid and electric cars is still modest, it has managed to develop the product element – a very important element of the marketing mix – in a way that allows it to leverage both the tangible and intangible features and benefits of the product. This has transformed them into a key differentiator that gives GEELY a competitive edge that will help them to move up the ladder and support the build-up of the brand image.

In an experiment designed to consider the immediate impact of ethnocentrism, brand name, product quality, and country of origin on purchase intentions, Pecotich and Rosenthal (2001) found that, while there was a strong significant main effect due to product quality, the other effects were not significant. In particular, there was no evidence of a main effect on purchase intentions due to COO.

Product quality was proved by Pecotich and Rosenthal (2001) to have a significant effect on purchase intentions where there was no evidence of a main effect on purchase intentions due to COO. The focus of Chinese car manufacturers on improving product quality through different aspects, such as car crash tests, components procurement from well-known brands, attention to chassis thickness and durability, and improving quality control and quality assurance levels, is marking a new era for Chinese cars and is a step towards better perceived quality. This is significantly improving the strength of the brand and building new associations and image for Chinese auto makers in general and for GEELY specifically.

According to industry experts, GEELY's transformation is a most profound innovation and is setting an example for Chinese transformation.

When asked about the innovation and product quality of Chinese auto brands, a marketing professor said: "For years in the automotive industry we only saw replicas of foreign brands. I think that Chinese are starting to really innovate now. We now see Chinese manufactured cars that are totally new in the way they look; they are not like any other car. One of these brands is the Chery Esperanza; it has its own design character, and I think they are getting there. We are seeing the next Hyundai in the making ... If the Chinese have the productivity and product innovation they can surpass any other global brand."

The Managing Director of GEELY Egypt was asked about the reason for the agreement to manufacture GEELY models in the country, and why it had been selected over other brands. He said: "We have studied many Chinese brands regarding cooperation, and the decision we took

comfortably was to select GEELY. In a very short time the brand has managed to outperform many other Chinese brands in terms of product quality and innovation, and performance, while maintaining the value for money proposition ... GEELY is making breakthroughs in quality; “QUALITY-GEELY” is integrating the concept of quality into every aspect of the business, even the selection of human resources.”

In 2010, TNS – a global research agency – revealed in a study conducted with HK 4As (Association of Accredited Advertising Agencies), covering 490 senior account directors and planners from the 4As’ networks in 29 countries, that less than one in 10 considered Chinese brands to be on par with or better than their international competitors. Half of the respondents pointed out that the only strength of Chinese brands was good value, or an attractively low price. The research revealed that the “low quality” perception is a huge obstacle facing Chinese brands wanting to successfully go global. Nine in 10 brand experts believe this is a major barrier to purchasing Chinese brands and over half say that low quality is the single biggest barrier.

Product quality is beyond doubt one of the major hurdles for the Chinese in building powerful brands. However, the above analysis shows that many brands are taking serious steps to overcome these negative associations.

Successful firms focus on both quality and innovation. The appearance of Korean and Japanese brands on Interbrand’s Top 100 Global Brands did not stem from these firm’s branding efforts alone; it was propelled by significant efforts to improve quality and to innovate in terms of features, designs, and service. Many of the firms on the list were originally described as being poor quality copycats, including some Japanese automotive brands. Currently, they are the subject of business school case-studies, just as the researcher hopes this research will be one day used to discuss the evolution of Chinese companies building strong brands and making it to the Interbrand Top 100 list.

Taking Toyota as a representation of the Japanese automotive industry, the Toyota brand established in 1937, started on the same foot as Chinese brands with the Company's first cars were imitations of American models. Yet, very quickly Toyota envisioned a completely different strategy, in 1947 product quality and innovation seemed to be the drive behind what the brand's signifies today. Toyota began to develop products of their own based on knowledge gained from reverse engineering. Since then, a succession of innovative product initiatives and improvements in technical expertise has made Toyota what it is today.

Product quality and innovation initiatives supported the tremendous growth of Toyota's brands and left no room for negative word of mouth. The power of their quality products paved the way for geographical expansion and spread over the years.

**Thus the conclusion and the above mentioned analysis could strongly answer the research question and affirm that product quality is positively affecting brand equity.**

### **Question # 3: How is geographical presence supporting the brand equity of Chinese brands?**

Competitive nations' trade relationships bring out strong global brands by exposing domestic products to foreign markets. Accordingly, China should be positioned as a brand powerhouse. However, this fast-growing economy has no brands in the Interbrand top 100 yet. Will the presence of GEELY abroad enable it to make to the list?

The following will address the question of how geographical presence is positively affecting the brand equity of Chinese brands, and will consist of two themes.

#### **Theme 6: Expansion and International Presence**

While most of China's cars have so far been produced for the domestic market, lately there has been rapid growth in exporting vehicles to the international market. (Moreover, some Chinese brands are building or purchasing their own manufacturing facilities abroad.) Most of these exports come from privately-owned Chinese local-branded vehicle manufacturers. (Ravenhill, 2006; Jianhua, 2006)

Li Shufu has said: "2011 will be a very critical year for the group, which is in the midst of major transition from a regional player to a global company, shifting its focus from growth and technology competence to overall quality, brand, and sustainability." To date, GEELY have established four big automobile manufacturing bases in Taizhou, Linhai, Ningbo, and Shanghai.

Li Shufu has proposed a new strategy: "taking exportation as the guide", and "letting GEELY automobile go out into the world". He said that two thirds of the company's automobiles were heading for the world market. Up to 2004, GEELY was the only Chinese firm exporting automobiles. Syria was the first step for the GEELY Group's overseas exports, with more than 10,000 vehicles shipped there since 2002.

The Detroit International Auto Show is one of the most important windows on new trends in the automobile industry. Manufacturers feature their concept cars, their new models, and demonstrate anything they plan to launch in the upcoming year. GEELY was the first Chinese automobile



company to participate in the Detroit show. John Humer, COO and Vice President of GEELY-USA, says that going global with his company will provide enormous opportunities for future growth. There will also be tough challenges and huge financial resources will be required for manufacturing and developing distribution and sales networks. To improve quality standards and meet US safety and emission standards, heavy investments in R&D will be necessary.

In one interview, a key expert in the automotive industry said: “If Chinese manage to fulfil the quality requirements and tough standards of the American market, they will bridge many gaps, and will achieve worldwide acceptance.” He added that entering the American market will give them the stamp of quality. However, a further comment from an academic professor: “I believe the real challenge is not in the States but rather in Europe. Europeans are more sophisticated, they are a little less price-sensitive, and are more quality-sensitive. Europeans seek durability, they keep their cars for longer, they have their own energy savings, good looking small and medium cars are where China could really fit in. So, the tough challenge in my opinion is Europe not America.”

By the first half of 2005, GEELY had exported 5,000 automobiles, reaching its target. But the profit margin achieved was very small, estimated at below 5 million RMB. However, the export records from 1997 (when GEELY was founded) to 2004, show that it managed to sell 10,000 automobiles, occupying 4% of the automobile market, and ranking it 8<sup>th</sup> on the list of Chinese automobile manufacturers. Some experts saw GEELY’s exports of 5,000 vehicles to nearly 30 countries as historic, since it represented half of the total automobiles exported by China at that time.

According to a report published by consulting firm Booz & Co., the world is witnessing a historic period in the development of the global automotive industry. The global financial crisis has significantly weakened the “triad” markets (Western Europe, North America and Japan), and has highlighted the buoyancy of the emerging markets, led by China. Consequently, the economic

imbalance is creating opportunities for the structural realignment of the industry as assets shift to the higher growth markets.

By the end of 2006, GEELY had sold 204,000 vehicles – accounting for over 5% of the total sales volume in the Chinese auto market – exported 30,000 cars, and opened over 200 service offices overseas. With the ambitious CEO's objective to "bring GEELY to the world", the company is heading towards expanding to 2 million units in 2015, two thirds of which will be sold in overseas markets, gaining GEELY 2.5% of the global market.

Between 2006 and 2008, GEELY was gearing up to sell in the EU and the US; hence its presence at the 2005 Frankfurt Motor Show and the Detroit Auto Show in 2006. However, exports to the EU and US were postponed, and only recently began in Europe. Today, GEELY has a distribution network of 976 dealers in China, and 63 sales agents and 351 second-tier shops in 52 overseas countries.

The Emgrand EC718 is GEELY's first global model, aimed at European and American markets. The group has invested greatly in its design, R&D, equipment, service system to brand system, to make it competitive. The Emgrand EC718 can cross boundaries since it meets the highest technical standards and the strictest regulation requirements in the world, by paying attention to aspects such as pedestrian protection, all-direction collision, and material recycling. It meets all safety standards, emission standards, and green certification standards.

### **Theme 7: Acquisition and Openness to International Markets**

One of the major achievements in terms of global presence for the GEELY brand in the automotive industry is the Volvo acquisition. Volvo has 2,500 distribution channels throughout 100 countries, mainly in Europe and North America. The acquisition of Volvo Car made it easier for GEELY to get access to overseas markets; a step that would have otherwise taken years was made instantly, bringing the group's goals that much closer. Can GEELY use the Volvo acquisition to accelerate the process of transforming itself into a global automotive brand?

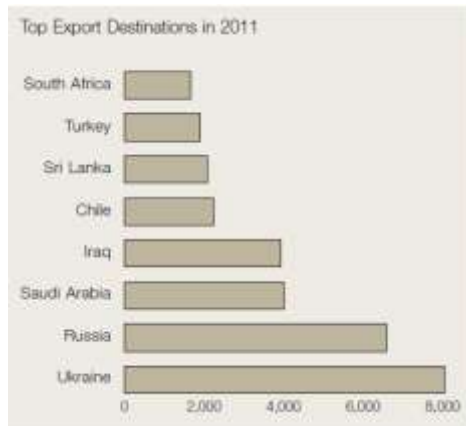
For GEELY the acquisition is both an extraordinary statement of intent and a huge gamble. The deal could help GEELY realise the dream of its founder, Li Shufu, the self-styled Henry Ford of China, to become a huge international carmaker. Moreover, GEELY could not only have access to the core intellectual property owned by Volvo – such as the critical area of safety, which will lend credibility to its own cars as its range expands in both scope and scale – but it could also learn from Volvo how to run a global supply chain and international dealer networks. (The Economist, August 5, 2010).

To what extent will this deal be the bridge to international markets that will add to the equity of the brand? The name Volvo will bring credibility and positive associations to GEELY, but will it enable its success in foreign markets and inject real returns from such markets?

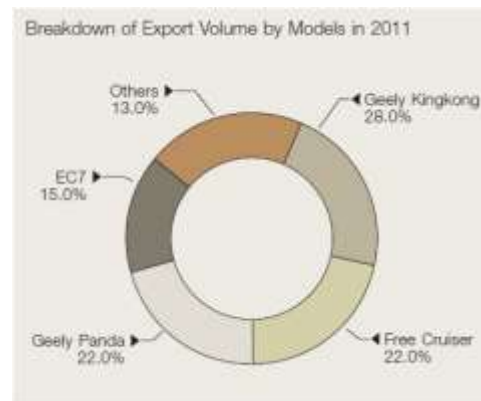
Today, GEELY is still small scale when it comes to exports and geographical expansion. In 2011, the group exported 39,600 sedans, accounting for 9% of its total sales. The group's share of China's total exports of sedans was 10.6% in 2011. The GEELY King Kong, the GEELY Panda, the Free Cruiser, and the EC7 were the most common export models in terms of sales volume in 2011; together accounting for 87% of the group's total export sales during the period, as demonstrated in Figure 5.8.

Developing countries in Eastern Europe, the Middle East, and Central and South America continued to be the most important markets for GEELY; top of which were Ukraine, Russia, Saudi Arabia, Iraq, and Chile, as demonstrated in Figure 5.9.

At the end of 2011, the group exported its products to 52 countries, through 63 sales agents and 351 second-tier shops in these countries. GEELY also assembles some models sold overseas using contract manufacturing arrangements with local partners in Russia, Ukraine, Indonesia, Taiwan, Egypt, Sri Lanka, Ethiopia, and Iraq.



**Figure 5.7: GEELY Top Export Destinations**



**Figure 5.8: Breakdown of Export Volume in 2011**

The group's longer-term plan is to expand its total annual production capacity to 2 million units by the end of 2015. The capacity expansion target will be realized through the construction of new plants in different locations in China and the introduction of manufacturing facilities in overseas countries, mainly through cooperation with local partners. GEELY has so far set up four Semi-Knocked-Down (SKD) /Completely-Knocked-Down (CKD) manufacturing arrangements in Russia, Ukraine, Indonesia, and Taiwan.

Details about the group's eight existing production plants are summarized below in Figure 5.10:

Name	Interests	Usable Annual Production Capacity (Units Per-Shift)	Models
Linhai plant	99.0%	75,000	GLEagle Panda (1.0L, 1.3L)
Luzhao plant	99.0%	100,000	Englon Kingkong (1.5L) Englon SC5 (1.5L)
Ningbo plant	99.0%	160,000	Free Cruiser (1.3L, 1.5L) Emgrand EC7 (1.8L) Emgrand EC7-RV (1.5L, 1.8L)
Lanzhou plant	99.0%	25,000	Free Cruiser (1.3L, 1.5L)
Xiangtan plant	99.0%	50,000	Vision (1.5L, 1.8L) GLEagle GC7 (1.8L)
Shanghai plant (Phase II)	99.0%	80,000	Englon SC7 (1.5L, 1.8L)
Shanghai plant (Phase I) (Lessee: Shanghai LT)	99.0% 51.0%	10,000	TX4 (2.4L, 2.5L diesel)
Jinan plant	99.0%	60,000	EC8 (2.0L, 2.4L)
Chengdu plant	99.0%	80,000	GX7 (1.8L)
<b>Total</b>		<b>600,000</b>	

Figure 5.9: Production Plants of GEELY

Since Geographical presence in overseas countries and expansion requires that the product performance and quality meet the global standards such as the American and the European it is foreseen that the impact of the geographical presence will come as a sequential attribute constituting an antecedent to building brand equity.

**Thus the conclusion and the above mentioned analysis could not support the question for GEELY, since the export strategy is not yet well established enough to propagate initial effect on brand equity. Nevertheless, this does not negate that geographical presence positively affects brand equity. According to Interbrand’s brand strength multiplier, geographical presence and global expansion is one of the seven elements that add to brand strength and consequently to the brand value.**

**Question # 4: How are joint ventures and co-branding supporting the brand equity of Chinese brands?**

The following will address the question investigating how joint ventures and co-branding are positively affecting the brand equity of Chinese brands, and will consist of one theme.

**Theme 8: Joint Venture and Co-Branding**

There were two automobile manufacturing models in the Chinese industry. The most successful in terms of sales was the joint venture (JV) model; involving a foreign manufacturer and a local auto company. This model secured a greater depth of development with established R&D and development processes. It allowed pre-production models to be fully tested before entering the mass market. SAIC led with the first partnerships with Volkswagen and GM. These partnerships allowed for technology transfer which, although relatively outdated by international standards, was advanced compared to existing technology in China. Next, the Guangzhou-Peugeot deal was signed in 1985; Tianjin Auto Works purchased Daihatsu's Charade technology in 1986; and many other JVs followed. These joint ventures were a way for the Chinese to learn the basics of modern automotive industry.

The second manufacturing model was that of a local company with substantial internal technology and processes combined with some foreign input. These original equipment manufacturers (OEMs) produced locally manufactured vehicles with less development, bypassing the expensive cost of R&D. By nature, these companies competed in the low-end market; since their investment in R&D was negligible they could not develop high end passenger cars. This was GEELY's model and beginning.

GEELY began to emerge as a leading local manufacturer. On June 21, 2005, GEELY Holding Group and the Hong Kong Productivity Council signed a cooperation memorandum to develop a new saloon

car in Hong Kong; starting the development project of the interrelated hardware synchronously. This project was the first cooperation between a Hong Kong and a Chinese local private automobile enterprise. Just before this agreement, GEELY had signed a contract with the Malaysia IGC group, under which GEELY exports, manufactures, and repairs, its brands in Malaysia.

In 2004, GEELY sold 100,000 automobiles and earned nearly 10 billion, making it one of the top 10 automobile manufacturers in China.

The GEELY start-up business model was quite different from most other Chinese auto makers. It had no technology, no funds, and no cooperative foreign company, but it had its own brand – something that the three big SOEs had wanted for many years. Although GEELY found it hard at the beginning, the ambition and character of its leader, Li Shufu, led it towards a new era of globalization.

When Li Shufu envisioned manufacturing a car that the common people in China could afford – calling it a “Chinese manufactured Ford” – was it a sixth sense that one day he would attract the attention of global media with his buy-out of Volvo from Ford?

In his start-up he insisted on building his own independent brand in an industry that was monopolized by SOEs and JV agreements with foreign brands. The mindset of the GEELY founder has shifted with his ambition and long-term vision. In 2008 he started to think of a completely new approach, of expanding in depth and breadth, and of building a new brand image.

In January 2007, an Extraordinary General Meeting of the London Taxis International’s shareholders approved a JV with GEELY to produce the TX4 in China. Production started in July 2008. GEELY launched the TX4 cab under their Englon brand. As a strategic step to benefit from the JV, add to its portfolio of products, and migrate part of the brand equity of London Taxicab, GEELY also developed a new version called the TXN. The TXN plans to go on sale in 2012, has a more rounded shape, meant to be more youthful. Moreover, a concept version called the Englon SC7-RV was also exhibited in 2011; and is intended to serve the family saloon segment.

The first addition to this important JV came in 2009, when GEELY paid AUS\$58 million for Drivetrain Systems International (DSI), an Australian transmission company. DSI is the second largest independent transmission manufacturer in the world and through this acquisition GEELY became the first Chinese car maker to have the ability to manufacture six-speed automatic transmissions. This strongly supported GEELY's ambitions to go global. (Chang, 2009)

To enhance product quality, GEELY has formed up to 20 automobile parts JVs with major international automobile parts manufacturers, like Faurecia of France, Visteon of the USA, Hsin Chong of Taiwan, Yazaki and Tachi-S of Japan, and Mando of Korea.

Regarding the impact of the London Taxicab on the GEELY brand, the marketing professor commented: "This step will really add to the brand. London Taxicab is a hallmark of London and it is well known for its high quality, with very high durability and very special design. The ability of GEELY to win such a contract says it can meet high quality standards. It says that GEELY can produce a very reliable and durable car. It says that it has the capacity to satisfy the toughest British drivers who are very demanding, so they can meet any other European standards ... Both deals have added tremendously to the GEELY brand. The acquisition of Volvo added to the corporate brand of GEELY, yet the deal with London Taxicab added to the GEELY product brand."

August 2, 2010, marked a major point in the group's brand transformation in terms of brand awareness among analysts, industry experts and practitioners, and the media.

### **The Phenomenal Acquisition of VOLVO**

Although the automotive industry has witnessed many JVs and acquisitions GEELY's acquisition of Volvo is considered a phenomenal deal. A Chinese brand acquiring a well-established Swedish brand is not a common deal. The other way around it would not attract much if any attention. It has been described as a gamble, a future risk, an opportunity, and a challenge; all of which make sense; but the one thing for sure is that this deal has put the GEELY brand on the fast track of co-branding.



Below are the milestones leading up to acquisition (Wang, 2011):

- On October 28, 2009, GEELY was named as the preferred buyer of Volvo Cars by Ford.
- On December 23, 2009, all substantive commercial terms were finalized for the sale of Volvo Cars from Ford to GEELY, after long and difficult negotiations.
- On March 28, 2010, the definitive agreement was signed in Volvo Cars' headquarters in Gothenburg. The figure was about US\$1.8 billion.
- On August 2, 2010, the deal was completed after the approval of the relevant authorities.

The deal triggered global media attention because it was seen in the context of a totally unknown small Chinese brand buying such a famous western automobile brand. It is the largest overseas acquisition ever by a Chinese company and marked a new era for China in the world economy.

Li-Shufu stated: "Acquiring Volvo gives GEELY an international profile and a degree of credibility it could never have achieved on its own. This confirms how JVs and M&A for Chinese brands and marriage with Western brands could bring Chinese brands a leapfrog jump that would have taken years of hard work to reach." (The Economist, Aug 5, 2010)

Wang Jing, an analyst at Phillip Securities, said: "For GEELY, the deal could improve its brand image and awareness, which would in turn give its customers more confidence about its own future growth ... If it can't run its own business well enough, it won't have too many resources to put into Volvo. It is only a start."

Michael Dunne, an independent auto analyst based in Bangkok, said that acquiring a well-known brand was the fastest way for a company like GEELY Auto to move up from making affordable cars for the masses to building respected cars for the affluent. (New York Times, March 28, 2010)

Yale Zhang, the Director of Greater China Vehicle Forecasts for CSM Worldwide, an international consulting firm, said the acquisition would benefit GEELY's image at home, because many Chinese were likely to take pride in the acquisition of such a famous brand by a Chinese company. "It will

help GEELY's brand, that's for sure," Mr. Zhang said. "The challenges and the risks are equal to the opportunity." (New York Times, March 28, 2010)

To fulfil its China strategy, GEELY-Volvo has created an entirely new Volvo organization led by Freeman Shen, Senior Vice President and Chairman of Volvo Cars China Operations.

"The successful acquisition of Volvo has enabled China to own the first of her international luxury brands," Li Shufu told the media. "This is a turning point for the history of China's luxury car market which has been dominated by foreign brands. It also shows that China is moving from a large to a strong manufacturing country."

"Despite China's unsatisfactory record at overseas acquisitions, GEELY may be better equipped for success due to its experience working with foreign partners, including its acquisition of Australian gearbox maker Drivetrain Systems International and its alliance with British cab maker Manganese Bronze Holdings Plc," said IHS Automotive analyst John Zeng, before the official announcement of Volvo acquisition. "GEELY is not a beginner in global M&A like many people think. In China, GEELY has established itself as a mass-market car maker; the acquisition of Volvo provides an opportunity to bring it to the next level."

In an interview with Nick Reilly, the President of GM International Operations based in Shanghai, China, he commented: "What GEELY buys is an accepted brand, a brand that is associated with safety and reliability. What GEELY buys is a range of already homologated cars and a cadre of engineers that already is working on cars to be launched five years from now ... Volvo gives GEELY a trusted and respected brand it can successfully market in China." (London Telegraph, March 28, 2010).

In 2000, shortly before China came in to the World Trade Organization, the Chinese government realized that local companies would need to be globally competitive to survive, and declared a policy that allowed local companies to make acquisitions abroad for the first time. Many SOEs and private companies seized the opportunity, and the value of Chinese M&A had jumped from \$1.6 billion in 2003 to \$18.2 billion by 2006.

However, due to many failure stories of M&A, a strategic shift occurred in the Chinese approach to mergers and acquisitions. Originally the Chinese were mainly concerned with buying global brands, sales networks, or goodwill. Now Chinese companies changed their strategy and began acquiring concrete assets, and state-of-the-art technologies and R&D facilities. This is exemplified by GEELY's acquisition of Volvo which included hard assets, technology, and pursuing growth at home first. "(How China Reset it Global Agenda, 2011)" However, since this acquisition was 100% of the company it also included Volvo's brand equity, which was immediately associated with GEELY.

Some analysts expect GEELY to benefit from the acquisition in the following ways (Wang, 2011):

- *Safety technology:* In marketing terms, Volvo has long been well positioned regarding car safety. Based on well-proven technological aspects it is a point of differentiation. One cannot assume that Volvo will bring the latest safety technology to GEELY, but the group could use Volvo's existing safety technology, or Volvo might develop a special simpler version for GEELY.
- *Product development process:* Sometimes having a good product development process is even more important than the technology itself. With Volvo's vast experience, GEELY could adopt this process more quickly with Volvo's support.
- *Brand enhancement:* The immediate effect was to raise the GEELY brand to a new level. The Chinese are very proud of the acquisition of such a prestigious brand; it brings positive associations to the Chinese brand and strengthens its position in China. Also it enhances

GEELY's position outside China, due to the worldwide media attention. The world market knew about GEELY even if they were not seeing its cars. This elevation in brand image will definitely help GEELY's future overseas expansion.

- *Distribution in the industrial countries:* A mutual benefit lies in the understanding of each brand's distribution channels in its market. Both brands will benefit from each other's competency.
- *International organization:* The international scope of Volvo will definitely help GEELY get on the right path towards globalization and with the management of the organization internationally.

When the Chinese government prohibited foreign companies producing cars in China, except by way of a joint venture with a Chinese partner, they could not have anticipated just how powerfully these JVs would add to Chinese brand equity. Adopting the JV, M&A, and co-branding strategy was a paradigm shift in GEELY's strategy and it is particularly interesting to note GEELY's approach to such alliances; namely "standing next to partners and learning from them". They must find companies to associate with and transfer knowledge from them. Technology transfer alone is not enough for them, they want further added value from alliances.

The group's recent partnership with Manganese Bronze and the acquisition of Australian gearbox maker Drivetrain Systems International are examples of this approach. They want to study the entire 'eco-system' of a company and integrate it into their own global strategy. "(An Inorganic Approach to Globalization, 2009)"

In their report analyzing the GEELY-Volvo acquisition, Booz & Co. (2009), wrote: "Admittedly, Chairman Li's initial view of automobiles was previously quite simplistic. His initial view of a car was essentially 'a sofa with four wheels'. However, Li has quickly become an expert in the car business and increasingly demonstrates an understanding of what needs to be done to become a

competitive car company. He has already become quite critical of his initial understanding of the complexities of the automobile and the ingredients behind building global brands.”

Many experts and analysts view GEELY as the main beneficiary of the Volvo deal. They note that careful attention to the implementation is crucial to avoid any dilution of the Volvo brand through improper positioning in China. Deputy General Manager of Brilliance in Egypt was asked if there had been any retro effect on the BMW brand through its association with the Chinese brand Brilliance. He said the association did not have any negative impact on the BMW brand. He highlighted that it is a matter of proper positioning, proper pricing, proper selection of models, and proper communication. The marketing mix with Brilliance was properly designed so it would not affect the BMW brand in any way.

The Managing Director of GEELY Egypt noted: “The acquisition of Volvo is one of the reasons our company decided to represent GEELY in Egypt. It is beyond doubt that this move will place GEELY products on a different level with its access to the well-known brand of safety technology.”

A Professor of Marketing, said: “One of the benefits of the acquisition of Volvo is the association that places GEELY in the position of a big player. They have managed to buy a brand like Volvo, so this is a tough player, playing big ... Regarding the drivers of brand equity; I believe this type of venture supports brand awareness and brand image.”

The Strategy Director of Labbrand Shanghai said: “Many people doubted that GEELY could ‘digest’ its production of London Taxicab. GEELY has showed its success by stabilizing its product quality, and integrating the culture from the east and the west. It is definitely a successful example of how Chinese brands can acquire and retain the vitality of a foreign brand.”

Three Chinese brands identified by Interbrand as powerful players in the global arena are Lenovo, Haier, and GEELY. These three have used acquisitions and JVs to leap ahead in terms of building their brand equity.

For example: in 2004 Lenovo acquired IBM's personal computer division and the ThinkPad brand, increasing Lenovo brand awareness around the world. The Haier Group, China's leading appliance manufacturer, acquired local brands in the US in 2005, and is now the third largest appliance brand behind Whirlpool and GE. GEELY's acquisition of Volvo created worldwide media awareness and is paving the way towards building a powerful brand in accordance with the corporate strategy of its founder.

In the 2011 annual report, Li Shufu announced that a shift in the management system from product lines to individual brand management had been implemented, marking an important change in company management. Li Shufu had his sights on Volvo five years before the acquisition, as part of his long-term vision of establishing a powerful and significant global brand.

It seems that the centre of gravity of the automotive industry is shifting to the east. However, eastern companies must build their core competencies globally. One important thing they need to do is build their brand equity, something that the west excelled at. Joint ventures and co-branding are significantly helping to put Chinese brands firmly on the map.

**Thus the conclusion and the above mentioned analysis could strongly answer the question and affirm that joint ventures and co-branding are positively affecting brand equity.**

**Question # 5: Is the perceived value of Chinese brands supporting the brand equity of Chinese brands?**

The following will address the question investigating how Chinese brands' perceived value is positively affecting the brand equity of Chinese brands, and will consist of two themes.

**Theme 9: Segmentation and Positioning**

China's economy is developing at an amazing rate. As the most valuable asset for an enterprise, brand is making an irreplaceable contribution in this rapid economic growth. With an increasing per capita disposable income, and a wider range of goods and services from which to choose, brand is playing an increasingly important role in the purchase process. Although most Chinese consumers are still price-sensitive, Chinese brands are just beginning to realise their great potential.

GEELY is shifting into a new era, by pushing the envelope towards middle and high-end models. Products sold under the new brands have achieved higher retail prices than comparable models under the old brands, reflecting good market acceptance and recognition of the three new brands by Chinese customers, and the initial success of the group's multi-brand strategy.

In 2010, GEELY sold a total of 415,843 units; up 27% in 2009, and 4% above the group's 2010 sales volume target of 400,000 units. This good performance was mainly due to the strong demand for its new mid-size sedan models like the EC7 and the SC7, and the better than expected sales of its small-size model the GEELY Panda; which more than offset the 84% drop in sales of the old Maple branded vehicles, of which production officially ceased in mid-2010. The group's domestic sales volume in 2010 was up 29% from the previous year to 395,288 units, compared with the 27% increase in the sales volume of China's overall sedan market during the same period. Export sales volume grew 6% from the previous year to 20,555 units, and accounted for 5% of the group's total sales volume in 2010.

The Free Cruiser and the GEELY King Kong remained the group's best-selling models in 2010, accounting for 23% and 20% respectively of its total sales volume during that year. Sales of the Free Cruiser, however, declined 14% from the previous year, while the sales of the GEELY King Kong stayed at the previous year's level, ahead of the planned launches of their upgraded models in 2011. This was a result of the disruption caused by the major restructuring of the GEELY and Maple branded distribution networks, which were to pave the way for transition of the group's product brand from GEELY and Maple to the three new brands GLEagle, Englon, and Emgrand.

In 2010, the group successfully launched five new models, including EC8 (marking its first entry to the large-size sedan market), the GX2 hatchback, and the SC5-RV. The EC8 received the best market response, with monthly sales reaching 1,000 units only a few months after its official launch.

As a result of moving from low-priced models like the Maple and the Free Cruiser to higher-priced models like the EC7 and the SC7; plus the new addition of more high-priced models like the EC8 series of large-size sedans; the group's ex-factory average sales price improved significantly in 2010, rising 12% to RMB 45,000 during 2010. Higher-priced models like the Vision, the EC7, and the SC7 – which are retailing at between RMB 56,000 to RMB160,000 – accounted for 46% of the group's total sales volume in 2010, compared with only 22% in 2009. Putting aside the impact on the market and the consumer of the increase in prices, the perceived value of GEELY will increase due to its strategic shift of middle- and high-end brands.

### **Theme 10: Perceived Value of Branding**

#### **Breaking up the manufacturing value trap and moving up the margin ladder**

It is important to highlight that perceived value is not determined by sellers or owners, but by customers. It is based on their perceptions of a product or service and the price they will pay for it. (Anderson, Fornell, & Lehmann, 1994) “Consumers compare the trade-off between the quality and



benefits they receive in the product or service relative to the sacrifice they perceive in paying the price.” (Dodds, Monroe, & Grewal, 1991.p.79)

In 2007, GEELY began to increase the output and sales of models priced above RMB50,000 (US\$7,310) and de-emphasize its cheaper models priced around RMB30,000 (US\$4,386). In September 2008, its higher-priced Freedom Ship, King Kong and Vision models accounted for more than 70% of its vehicle sales. Moving up the margin ladder and breaking up the manufacturing trap will positively affect the perceived value of the Chinese brands.

Through research and consulting activities, Asian and Chinese companies are starting to realise that branding is the way out of the commodity trap. Moving up the value chain shows better potential for profitability, since firms own the customer relationship and this allows their brands to enforce their price points. In addition, it allows these brands to improve on their slim margins and capture a higher portion of the value. Perceived value will only increase if the consumer feels the added value. Also, local manufacturing firms have started to realise that competition on the basis of price and basic product alone is not enough. The segment of sophisticated customers is no longer satisfied with the basics, and demands more differentiated products and services (Williamson, 2005). When the Chinese began integrating design capabilities – to become Contract Design and Manufacturing (CDM) firms – it allowed them a slightly better margin than pure manufacturing firms, but margins were still low. For these firms branding would seem to be more advantageous, as the perceived value of the brand will call for a higher margin. (Arrunada & Vazuez, 2006; Maldar & Chaudhuri, 2006)

To date, no Chinese brand is on the list of Interbrand’s top 100. However, according to industry experts, it will take less than five years for this to happen. Chinese automotive brands will rise very soon because the perceived value of their products is changing dramatically, moving them up the ladder.

Furthermore, manufacturing is no longer the same high margin business that it used to be during the industrial period. The centre of gravity is moving towards increasing the perceived value of products and services, which will allow enforcing a better price point as the equity of the brand goes higher and higher.

As noted before, GEELY is not only shifting the strategic focus of its products portfolio to a multi-brand strategy, but also building its capacity at the service level. So it is augmenting the product offering and increasing the perceived value of the brand by introducing new service models to improve marketing ability and service quality.

When asked about the change in the perceived value of Chinese cars, the Deputy General Manager of Brilliance Egypt said: “The value of Chinese brand perception within the automotive industry is changing dramatically. When Chinese manufacturing brands such as Brilliance, GEELY, and Chery first started they had the ability and the strategic will to produce small, medium and large cars, with the quality ranging from very cheap to high quality. In the past few years the Chinese have been moving away from the lower segment – both in price and quality – to address the higher segment with better quality and higher prices; this is helping to increase their perceived value.”

According to Zhou & Jiang’s study of hotels (2011), strong brand equity leads to a customers’ higher perceived value and increases their revisit intentions. Furthermore, brand loyalty has a great impact on revisit intentions, followed by brand awareness, brand association, and perceived quality. They added that perceived quality is the most significant predictor for perceived value, having a significant impact on revisit intentions.

All of the above confirm that perceived value has a significant effect on brand equity. Nevertheless, the researcher believes Chinese brands still have a long way to go to change their perceived value from the market perspective. On their side – the seller’s side – they are daring to take positive steps towards increasing Chinese perceived value of products and services.

**Thus the conclusion and the above mentioned analysis for GEELY case did not support to answer the question that perceived value is positively affecting brand equity.**

### **PART III: THE BYD CASE-STUDY**

Many case-studies and theses have examined BYD. However, their focus has mainly been on its rechargeable batteries as a successful business and business model. Little attention has been paid to its automotive business and the development of BYD brand within the auto industry. The following section will focus on BYD's automotive business, highlighting the key questions under study. The researcher will start with a brief profiling of the BYD brand and then move on to the theoretical strategy demonstrating the analysis of the antecedents of Chinese brand equity as illustrated by BYD case study.



**Exhibit 5.4: BYD Logo**

#### **BYD: Starting Big**

Founded in 1995 by Wang Chuan-Fu, the Chairman and President of BYD Company Ltd., BYD is primarily engaged in the rechargeable battery business, handset components, and assembly services. In July 2002 BYD became the second largest manufacturer of rechargeable batteries in the global arena. BYD achieved highly, winning major clients in the handset manufacturing business such as Nokia, Samsung, Motorola, Huawei, and ZTE. The company is also engaged in the production of global electric power tools and other portable electronic equipment for manufacturers such as Bosch and TTI. Lithium-ion and nickel batteries produced by the group are widely used in handsets, digital cameras, power tools, electric toys, and other portable electronic devices and electrical products. “(BYD Company, Ltd., 2009)”

In 2003 it entered the automobile industry, producing traditional fuel-engine vehicles and new energy vehicles. In June 2011, BYD made an IPO of 79 million RMB ordinary shares (A shares) which were

listed on the SME Board of the Shenzhen Stock Exchange, and on the Hong Kong Stock Exchange (stock code: H Shares: 01211; A Shares: 002594). “(BYD Company, Ltd., 2009)”

When the government stopped issuing production permits for new automotive companies, Wang started to think and plan for the next phase of development. His move was well studied. He acquired the state-owned Qinchuan Auto, a small regional manufacturer located in Central China. For some analysts it seemed a strange move. Why should a business leader in rechargeable batteries enter the automotive industry? It looked like it might jeopardize the original successful business, considering the investment he would need to inject to upgrade the plant, equipment, and create new models. But Wang had a clear vision and a dream to create a competitive advantage building on his point of differentiation. “(BYD Company, Ltd., 2009)”

Though the automotive industry is very competitive, the expected growth in Chinese demand for automobiles is a booming opportunity. Wang had a vision to capitalize on the technology developed in the Li-ion battery to develop an electric vehicle. Although electric vehicles first appeared in the US in the 1990s, production ceased due to low sales and high costs. Wang saw an opportunity to revive the electric car by leveraging his cost advantage and low labour with the newer technology of BYD’s batteries. The company’s heavy investments in battery product development, process, and technology, gave Wang an edge over other automotive competitors. He saw it as an opportunity to position China in an industry that others had stayed far away from.

Unlike GEELY’s automotive production – which Li Shufu started from scratch – Wang’s start-up of BYD’s automotive business was the diversification of a successful business that was already up and running, coupled with enormous experience of the main component of an electric car: around 60% of the cost was accounted for by the battery. BYD’s expertise in product process development and technology would give it a good head start in its new venture.

## **Visionary Leadership**

Wang Chuan-Fu is a complex person; modest yet with a vision of BYD becoming the world's largest car maker by 2025; a dream that he intends to achieve through perseverance, intelligence, and hands-on experience.

Having completed his master's degree in 1990, at the Beijing Non-Ferrous Institute, he stayed at the institute to fulfil his first dream: "to make better batteries for electronic products". Since government support for research was not enough in China, he moved to Hong Kong in 1995 and founded BYD when he was 29 years-old. BYD is an acronym of "Build Your Dream". He used to joke and say it stands for "Brings You Dollars"; which it did. "(BYD Company, Ltd, 2009)" Wang's approach to business was different to other internationally competing companies at the time, such as Sanyo, Sony, and Matsushita. He could not afford to buy automated systems and robots. Instead he relied mainly on labour intensive production. His work at the institute had given him a good knowledge of battery technology and, together with three colleagues from there, he started work on developing a nickel-based rechargeable battery and nickel-metal hydride; a technology used in toys and consumer electronics.

Wang is a chemist, a technician, and an expert in the industrial field. He contributes personally to almost every project and has some inventions credited to him.

He is a workaholic and takes pride in his dedication to his work. He is also a very decisive character and a risk taker. For instance, he acquired Qinchuan Auto Company Limited against the advice of many who did not see the worth in it. He is not only a risk-taker in business decisions but can go beyond the norms in other ways; for example, he once drank battery fluid to prove the safety of his products. Wang won the title of Most Creative Leader in the Asia-Pacific Region in 2004, and was named the Most Predictive CEO by the Chinese Car Newspaper in 2007.

Reverse engineering has been common practice in China for some time. Wang used to buy mobile handsets to see how the batteries were made and he later applied the same technique to cars; buying foreign models like Porsche, Mercedes, and BMW and pulling them apart in the lab. He even personally dismantled his own Mercedes because his team of engineers would not dare to. His business approach was aimed at improving quality while keeping prices low to compete in the high end market. His focus on process improvement enabled him to win business from foreign companies. He reinvented the manufacturing process by replacing machinery with manpower and developing numerous simple-skill labour operations to assure quality control and consistency.

BYD became identified with its hardworking pioneering young chairman. It tapped into China's large labour surplus and earned a reputation for superior technology, quickly gaining an advantage over its competitors. By 2003, the battery making company employed some 100,000 workers, and Wang was on the lookout for new opportunities. He bought a 77% stake – about US\$32 million – in the automobile manufacturer Zhen Chuan Automotive in Xi'an, in order to leverage his core competency and invest his battery technology to produce China's first electric car.

Today Wang eats in the company canteen and still lives in a BYD-owned housing complex which has not changed much from the time he initiated his business back in 1995. BYD is now the world's largest manufacturer of rechargeable batteries and the second largest producer of cell phone batteries. It was the first Chinese brand to produce a hybrid car, and the first Chinese brand to introduce the all-electric car.

### **Building Promising Future**

Since tapping into the automobile business in 2003 – trading on its superior value for money and international quality products – the group has achieved remarkable growth. It was ranked among the top 10 manufacturers of passenger cars and in the top three manufacturers of domestic-brand

passenger cars in China in 2010, according to the China Association of Automobile Manufacturers, as illustrated in Table 5.1.

<b>China's 10 Largest Passenger Vehicle Makers</b>		
<b>Name</b>	<b>Units 2010</b>	<b>Growth 2010</b>
SAIC-GM-Wuling	1,135,600	16.26%
Shanghai GM	1,012,100	42.87%
Shanghai Volkswagen	1,001,400	37.50%
FAW Volkswagen	870,000	30.01%
Chongqing Changan	710,000	36.93%
Beijing Hyundai	703,000	23.27%
Chery	674,800	34.87%
Dongfeng Nissan	661,000	27.37%
BYD	519,800	15.93%
Toyota	505,900	21.24%.
Total:	7,793,600	
Market share:	57.00%	

**Table 5.1: China's 10 Largest Passenger Vehicle Makers - Source: China Association of Automobile Manufactures**

To date the group has manufactured and sold over 1 million sedans, establishing the leading position among domestic independent automobile brands. New energy business is an important feature of BYD's future development. By leveraging its technology and cost advantages in the new energy sector, the group is actively developing business related to new energy products, facilitating its long-term sustainable development. "(BYD Annual Report, 2011)" Table 5.2 represents the development of Plug-in cars since 2009.



Year	Battery Electric Vehicle	Hybrid Electric Vehicle	Plug-in Hybrid Vehicle	Fuel Cell Electric Vehicle
2009	Sabaru 4 seat	Mercedes S400 HEV	Fisker Karma S PHV	Honda FCX Clarity
	Chrysler EV			GM HydroGen3 FCEV
	Smart for Two EV			Chevy Equinox Fuel Cell
	ZENN city ZENN BEV			Ford Fuel Cell EV
2010	Chevy Volt Extended Range BEV	Ford Fusion HEV	Saturn VUE PHV	
	Chrysler EV	Honda Insight HEV	Toyota PHV	
	Miles EV	Hyundai-Kia HEV		
	Mitsubishi iMiEV BEV	Lexus HS 250h HEV		
	Nissan BEV	Mercedes E Class HEV		
	Ford Battery Electric Van	Porsche Cayenne S HEV		
	Tesla Roadster Sport EV	Prius HEV		
2011	BYD e6 Ford BEV Small Car		BYD F3DM PHV	
	Opel Ampera Extended Range BEV (Europe)		Chevy Volt PHV	
2012	Think Ox		Ford PHV	
			Volvo PHV	

**Table 5.2: Plug-in Cars Since 2009 - Source: Madslie, 200; Plug-in America.org**

Wang understood very well that the product life-cycle of his original business required a completely different business vision, and that new product development is the way to a new array of opportunities and business expansion.

Interbrand ranked BYD at 37 in its Top 50 Chinese Brands in 2010, with a brand value of 3.11 billion RMB. At the time BYD and GEELY were the only passenger car brands listed. “(The Best 50 Chinese Brands for 2010, 2011)” Moreover, BYD was also ranked 48 in the BrandZ Top 50 Most Valuable Chinese Brands in 2011 report. “(Top 50 Most Valuable Chinese Brands, 2011)”

BYD produces a range of products and services abiding by green marketing concepts, principles and practices. It benefits well from the Chinese government’s growing promotion of automobile ownership and clean energy policies.

On the corporate level, BYD is undertaking its responsibilities as a good corporate citizen with its commitment to give back to society, and realizing energy conservation and emission reduction

through the development of the new energy vehicle businesses. BYD views this strategic approach as a contribution to the social development of the world.

When BYD established its automobile business, the aim was to empower a national brand by investing in research and development; to create a national champion with international respect and a reputation for quality; and to promote the national automotive industry of China.

From an investment perspective, the vote of confidence came when Warren Buffet's Berkshire Hathaway purchased almost 10% of BYD for US\$230 million (RMB 1,470 million) in 2008. From a marketing perspective, this type of investment adds to brand awareness, perceived quality, association and image, and consequently equity of the BYD brand.

BYD's partnership with Germany's Daimler in 2010 was another milestone for its brand equity. It marks a new shift in the perception of the brand in terms of brand awareness and recognition, brand perceived quality, and brand associations.

### **Question # 1: How is product quality supporting the brand equity of Chinese brands?**

The following will address the question of how product quality is positively affecting the brand equity of Chinese brands, and will consist of three themes.

#### **Theme 1: Product Quality**

Since starting car production in 2003, BYD has created a sustainable advantage of high value for money by leveraging its vertical integration operation. Product quality is widely regarded as the main driver of its growth. It entered mainstream auto manufacturing to meet the needs of different users by releasing the F3R, the F6, and the F8; soon after the F3 model became its flagship brand with high sales and market acceptance.

At the same time BYD continued its efforts in technology and quality as the focus of its development. It enhanced the general quality and performance of existing models, and introduced the first SUV model S6 and medium-to-high-end sedan G6, all with excellent market performance. By the end of 2008, BYD had launched its F3DM plug-in hybrid car. Selling for about \$22,000, this is was a great achievement and it was the first hybrid made in China.

The SUV-S6 model represented the latest examples of BYD quality and technology, and was received pretty well by consumers for its high quality and value for money. The S6 model used moulding technology from leading global moulding plants and featured the comprehensive electronic equipment that helps BYD deliver an outstanding experience for consumers. According to the China Association of Automobile Manufacturers, the S6 has been the top selling SUV model in many provinces since its launch and has won several SUV awards. By the end of 2011, almost 60,000 units of S6 had been sold. The launch of the S6 not only enriched the product mix of the group, but it also became a new growth focus for BYD's automobile business.

Furthermore, in September 2011 BYD launched the medium-to-high-end sedan G6, which was equipped with a turbocharged direct injection engine and DCT gearbox for the first time, plus a

variety of other electronic devices. The car was positioned as a sophisticated car with intelligent electronic technology and high power. The G6 was an example of BYD's strong R&D capabilities and established its efficiency and integration innovation capabilities. The turbo injection engine and the DCT gearbox will be leveraged to boost the value for money and competitiveness of other BYD models.

“Product is one of the most important touch points for brand development. If the product consistently delivers the brand promise, brand equity will accumulate to the brand, thus benefiting the sales and brand premium,” commented a Strategy Director at Labbrand Enterprise Management Consulting in Shanghai.

## **Theme 2: Technology and Innovation**

BYD's business has always been associated with research and development capacity and investment in technology. Wang himself is an innovative personality and a great developer. Charlie Munger, the Vice-Chairman of Berkshire Hathaway Corporation, spoke of Wang to Fortune magazine in April 2009:

“This guy is a combination of Thomas Edison and Jack Welch – something like Edison in solving technical problems, and something like Welch in getting done what he needs to do. I have never seen anything like it.” (Reuters, March, 2011)

BYD has more than 40,000 staff members around the world. Its market value is over HKD 15 billion. It has adhered to the international development road and devoted itself to researching, developing and manufacturing the fuel vehicle and the hybrid vehicle. The group has brought its first-class IT and electronic equipment manufacturing technology into the automotive business, making it a world-class auto manufacturing company, with a first rate R&D centre and over 500 patents every year.

Intel (China) Ltd. and BYD recently jointly launched an innovative programme called "Information Technology to Accelerate Innovation". It is aimed at applying advanced information technology in

automotive sectors, such as new energy vehicle components and parts, as well as intelligent vehicles, in order to guide the automotive electronics industry from "Chinese-made" mode to "Chinese innovation" mode.

Moreover, BYD showed a superb level of originality at the 2012 Beijing Auto Show, by exhibiting the BYD F3 Plus, the world's first mass produced remote controlled car and now BYD's company car. The group is taking innovation to another level. These latest developments have changed BYD's brand image from that of a low-cost manufacturer to that of a high-end manufacturer, using technology as its driving force.

The focus group of marketing practitioners highlighted that probably the most important element of the marketing mix that would drive the development of Chinese brands is product quality and innovation. Saying this would mitigate the negative connotations that directly come to mind regarding poor quality, cheap Chinese products. However, this can only be achieved by bringing real innovation to the market.

Could the development of electric cars accelerate the build up of brand equity and eliminate negative associations?

BYD is investing in technology and R&D to achieve its dream; a dream that could bring the whole industry to another level and act as a cornerstone in the development of a differentiated brand.

BYD is not only developing innovative products within the automotive industry, the brand is also trying to reinforce these innovations with proof of claim of quality and support. According to analysts, the S6 has been praised for its safety, quality workmanship, and a variety of high-tech features. Analysts presume that BYD is leaving its cheap, low-end status behind. In the last two years BYD have upgraded their painting lines, hired Japanese experts to improve the welding process, worked on improving the sound-proofing/sealing of their vehicles, improved upholstery quality, and

improved the interior plastic workmanship. All of the above indicate that BYD is moving up the ladder to address a new segment demanding higher quality products.

It is well known that high quality product targeting the upper classes immediately raises the brand image and the perceived quality if it is well positioned to address the higher segment.

A marketing professor noted: “There are two drivers for competitiveness: productivity and innovation. China has proved beyond doubt that it has the most productive workforce on earth. The output is amazing, which shows how productive the Chinese are. But the input level is too low. Now, with the cost of input going up due to the increase of labour costs, wages, improving lifestyles, global pressure on child labour, etc., so the cost of manufacturing in China is going up. Consequently the gap between the output and the input will shorten. Since Chinese productivity is their hallmark it is extremely important that they diversify into innovation.”

Product innovation is a key driver for competitiveness and will offer the Chinese a proof to claim the ownership of powerful brands. Having a high quality product is not itself enough; while it is the foundation and the base, the proof of claim should be complemented with a clear brand promise and brand building investment.

### **Theme 3: Hybrid and Green Vehicles**

Like many Chinese auto manufacturers, BYD started by imitating foreign brands’ designs. Many accused BYD of copying their models. Famously, Toyota claimed that the BYD F3 is a copy of a Toyota Corolla model. Also, the BYD F1 has been described as a copy of the Toyota Aygo.

“The Chinese are now investing in the future of automobiles,” A marketing professor said. “Electric cars are not merely an investment in a new technology, the Chinese are investing in alternative energy and the electric car is the next generation.”

Wang Chuan-Fu’s successful visionary leadership took the company from very modest beginnings to being a leading manufacturer of rechargeable batteries. Led by his vision he built on his competitive

advantage to enter a very tough market. His approach – capitalizing on his competitive advantage in rechargeable batteries and the extensive R&D experience – brought about a new era in the new energy automotive business.

By late 2008, BYD had burst into the international market by beating Toyota and General Motors to the launch of the world's first mass-produced plug-in hybrid, only five years after it first entered the industry.

A year later BYD launched one of China's first mass-produced fully electric sedans; a step towards achieving the founder's ambitions of becoming the biggest carmaker in China by 2015, and the biggest in the world by 2025. This step confirmed BYD's positioning as a technology innovative domestic automobile brand. Due to environmental issues and CO<sub>2</sub> emissions concerns, new energy and environmentally friendly electric cars are emerging as a future global trend.

Analysts expect that BYD's all-electric car will increase competitiveness not just for Wang's company but for the Chinese automotive industry as a whole.

Over the past decade, the Chinese government has supported and encouraged worldwide research and development in energy efficient vehicles. Recently, the increase in fuel prices, the high trend of investment in clean technology, and the poor performance of American automakers, has strongly pushed the development of the next generation of more efficient automobiles. Electric cars have zero-to-low emissions and are 90% more efficient than traditional fuel-powered cars, with less than one-tenth the parts of conventional cars, according to the Royal Academy of Engineering.

To date, Japanese and European automakers have dominated the fuel efficiency sector. Toyota's Prius, launched in 1997, was the first hybrid electric vehicle. It represents nearly half of the hybrid EVs sold in the US, selling more than 401,300 in 2010. In Japan, it was the best-selling car among all models.

Analysts foresee that Japan and the US will continue to be the largest markets, even though electric car sales in emerging markets will quadruple between 2010 and 2014, according to the consulting firm SBI Energy. As EVs and plug-in hybrid electric vehicles (PHEV) become the optimal option for long-term policy goals across the globe, new entrants in the US, China, and India are emerging as fierce competitors.

Despite the high market demand for EVs, an affordable model is yet to come onto the market. Since battery technology is the core of EV manufacturing – accounting for around 60% of the total cost of the car – BYD's strong position in the battery market is giving the brand a real edge over competitors. As Henry Li, a Chinese venture capitalist who invests in electric car technologies, said: "BYD has the full package: charger, battery, car."

The innovative new BYD e6 is a five-seat, crossover all-electric vehicle with an extended wheelbase of 111.4 inches. It uses BYD's revolutionary new EV battery – the Iron-Phosphate or "Fe" battery – and a 75kW motor. It has a range of 186.4 miles on a single charge in urban conditions. This makes it one of the longest-range, pure EVs in the world. The projected top speed is 87mph. The BYD e6 is environmentally friendly. It is a zero-direct-emission electric vehicle, i.e. it emits no harmful toxic emissions, criteria pollutants or harmful greenhouse gases. BYD's new Fe battery extends its green philosophy to bring to the market the only completely recyclable/disposable chemical formulations.

Exhibit 5.5 illustrates the BYD e6 model.



**Exhibit 5.5: BYD Electric Car - e6 Model**



The e6 was officially launched in Shenzhen in October 2011. However, initial contracts were signed even before the official launch. In May 2011, Rotterdam's city government and BYD signed a contract for delivery of the first batch of the BYD e6 as part of its green transportation project "75-EV-RO".

Furthermore, BYD and Hertz – the International car rental brand – signed an agreement whereby Hertz will add all-electric cars to its fleet in Shenzhen. The model will be the first purely electric vehicle in the car rental industry in China.

The Head of the Automotive Trade Association in Egypt commented: "Chinese products will contribute tremendously to the reduction of negative Chinese COO and the development of Chinese brand equity ... The Chinese started by addressing the spread issue and presence, they are now upgrading their quality through quality focus."

**Thus the conclusion and the above mentioned analysis could strongly answer the question and affirm that product quality is positively affecting brand equity.**

## **Question #2: How is geographical presence supporting the brand equity of Chinese brands?**

The following will address the question investigating how the geographical presence is positively affecting the brand equity of Chinese brands, and will consist of one theme.

### **Theme 4: Expansion and International Presence**

In accordance with Wang Chuan-Fu's dream of expanding into North America, in April 2010 BYD opened its new headquarters with an R&D centre and a sales office in downtown Los Angeles; giving the company a different scale and weight regarding its brand recognition. The then California Governor Arnold Schwarzenegger noted: "Like California, BYD is a company of firsts. They are leading China and the rest of the world into a cleaner, more sustainable future with their automobiles and renewable energy products while creating jobs and saving consumers money."

By establishing its headquarters in one of the most developed car markets in the world, BYD is leveraging government incentives directed toward electric cars. The US government is granting up to US\$7,500 in tax credits for electric car owners and is investing millions of dollars to grow a network of charging stations. The selection of the location and the geographical boundaries adds to the image of the brand. This is expressed in the statement of Stella Li, the Vice President of BYD: "LA Live is the best place to promote our brand".

Wang Chuan-Fu said: "Many auto companies will pay attention to this market, and BYD will take this opportunity as well." He added that he wanted BYD to lead in the field of electric cars and buses in the world's second-biggest auto market. "Our strategy in the US market will probably focus on the pure electric segment."

The plan was to launch the all-electric crossover vehicle, the e6, in the US and roll out the BYD electric bus to local transport authorities. When delays in these operations occurred, some doubted the

authenticity of BYD's stated intentions and suggested that the move to Los Angeles was merely a step towards building a brand image in China rather than gaining market share in the US.

BYD's official Facebook presence has been successfully launched in America ([www.facebook.com/bydcompany](http://www.facebook.com/bydcompany)) as a step towards build brand awareness within the American market.

Beutner, the former Deputy Mayor of LA, has said that BYD had made a tempting proposal, including a showcase of BYD vehicles at Los Angeles International Airport, and was using Los Angeles' uniqueness as a distinguished location to promote the brand.

BYD headquarters in LA is located in the State Enterprise Zone, which offers incentives to businesses located there. BYD plans not only to sell vehicles from there but also to accelerate its core business by selling solar panels, batteries, LED lighting, and IT services. BYD is trying to pursue the best strategy to ensure corporate profits, and to align its auto business with its original core business. However, to successfully build a strong brand, BYD may need to take more aggressive steps into international markets.

In 2010, it opened a branch in Bahrain through its sole dealer Fakhro Motors (the Gulf Daily News, January 26, 2010). In 2011 it officially launched its brand in Ukraine, one of the major markets of the Commonwealth of Independent States, with four models: the BYD-F3, the BYD-F0, the BYD-G3, and the BYD-S6. The prices of the vehicles range from US\$10,000 to US\$15,000 and, with 14 dealerships throughout the country, BYD expects to sell 2,100 units in 2012. (Chinadaily.com.cn, 2011)

A study conducted by TNS, a global research agency, with the HK4As (Association of Accredited Advertising Agencies) in 2010 revealed that measuring the perception of Chinese brands versus

international brands for different industries, in which respondents were aware of at least one Chinese brand, showed interesting results. Respondents who were aware of a Chinese brand in a specific industry were more likely to rate Chinese brands in that industry better than if they were rating Chinese brands in general. From the above we can conclude that brand presence – whether physical through geographical expansion, or virtual through media – would positively support the building up of BYD’s brand awareness and consequently brand equity.

BYD, one of the fastest-growing Chinese auto manufacturers, has more than 200,000 employees in 14 factories around the world. The company aims to become the largest automaker in the world by 2025. However, despite optimism from investors and an aggressive growth target, BYD’s US expansion is presenting challenges to its progress. The biggest challenges are regarding global branding strategy, understanding the US consumer, and creating a balance between global expansions and maintaining a solid position in China. If BYD can meet these challenges, the new trend of EV acceptance and government support should see BYD well positioned to become China’s leading international automobile brand.

A marketing professor in the interview observed: “The fact that the brand has crossed the geographical boundaries from its home market, does not necessarily mean this will add directly to its brand equity. The result of this geographical presence is the challenge. Will the brand manage to survive entry into the global market and overcome the tough perception of the COO or not? The fact that you go to a market does not change the perception of the brand. Success in the market is what adds to brand perception and brand image. That is what really counts. Geographical presence can add to brand awareness, but brand awareness without a positive image and associations is not much.”

**Thus the conclusion that the above mentioned analysis could not support the question for BYD same as GEELY, since its export strategy is not yet well established enough to propagate the**

**initial effect on brand equity. Nevertheless, this does not negate that geographical expansion positively affects brand equity. According to Interbrand's Brand Strength Multiplier: geographical presence and global expansion is one of the seven elements that adds to brand strength and consequently to brand value.**

### **Question # 3: How are joint ventures and co-branding supporting the brand equity of Chinese brands?**

The ultimate objective of any co-branding strategy – from joint ventures to sponsorships – is to combine the strengths of the involved parties to increase the respective brands' value. It is well known that JVs, mergers and acquisitions increase the knowledge and awareness of consumers, and add brand strength. The following will address the question of how JVs and co-branding are positively affecting the brand equity of Chinese brands, and will consist of one theme. The researcher will concentrate on two main events that imply the meaning and support the question.

#### **Theme 5: Joint Ventures and Co-Branding**

Similar to GEELY's acquisition of Volvo, BYD's JV with Daimler is bringing a completely new dimension to the brand.

Denza is the new all-electric vehicle resulting from the partnership between BYD and Daimler. This battery-driven vehicle defines a new level of sophistication in the Chinese New Energy Vehicle (NEV) and is bringing the BYD brand to a new level of brand meaning and associations. Denza is the brand of BYD-Daimler New Technology Co Ltd (BDNT); a 50:50 JV between Daimler and BYD. (Go Auto News, May 16, 2012)

The arrival of Denza marked the first strictly NEV brand in the Chinese market. It is a brand that, according to experts and analysts, driving China and BYD to different levels of competitiveness and brand building. This move might mean that China could own a new category of product that, if properly built, could positively support the build up of the BYD brand and Chinese auto brands in general.

Created as a Chinese-market-only brand, Denza is set to support a range of affordable electric-powered vehicles; the first of which was unveiled at the Beijing Motor Show on April 23, 2012.

The first Denza model was developed in a joint engineering effort between Daimler and BYD, a partnership that was made official by Daimler Chairman Dieter Zetsche and BYD President Wang Chuan-Fu in 2010.

Zetsche said at the time: “We will be able to participate in the potential growth of electric mobility in China, the largest car market in the world. Electric vehicles are especially well-suited for urban driving. With its many metropolitan areas, China has the potential to be among the world’s largest markets for zero-emission vehicles.”

Ulrich Walker, Chairman and CEO of Daimler Northeast Asia and Chairman of the Board of Shenzhen-based BDNT, added: "BYD and Daimler have been visionaries in the development of sustainable mobility and new technologies. We are at the forefront in China as the first company to form a joint venture for the development of a pure electric vehicle, and we are continuing our pace forward with this landmark event today."

The partnership combines Daimler’s electric vehicle architecture knowhow with BYD’s expertise in battery technology. From a branding perspective, this JV has brought the BYD brand to a different level and added to its brand equity elements. The media coverage of the BYD and Daimler venture alone is bringing the brand to a completely different level of brand awareness, besides the physical presence of the product in the market. The brand is well positioned and associated with its core competency in battery technology. It has attracted the attention of the media and experts from both technological and green backgrounds. The brand is positively associated with the image of Mercedes – the reference for car technology and durability – which is in turn adding to BYD’s perceived quality and brand association; saving time and effort that maybe BYD alone would not be able to afford.

When the American investor Warren Buffet – in the middle of the financial crisis – put \$232 million into BYD, taking a 9.9% stake, Reuters reported: “Warren Buffett is no ordinary investor, and China's BYD is no ordinary company.” (Reuters, March 2011).

BYD's electric car is riding the future wave of the green automotive business. Warren Buffet's investment has elevated the brand awareness and the brand image of BYD through the positive associations with the man. “BYD bought time and a learning curve with their joint venture with Daimler and the co-branding with Warren Buffet,” remarked the Head of the Automotive Trade Association in Egypt.

The move into electric cars is a strategic step for both China and BYD. “China's auto industry may have lagged behind the West for the past century, but we are now on a level playing field with international players when it comes to electric cars,” said a BYD representative in Shenzhen. “Everyone is behind the same starting line when it comes down to this race. In fact, BYD might even be a little bit ahead given our expertise in batteries,” he added.

In his interview the marketing professor commented: “The Daimler BYD deal is benefiting China, the automotive industry, and BYD. What brings you into an industry is innovation.”

Although there are a number of ways for a company to build its own brand, according to the past literature, brand alliance and co-branding may act as a good branding strategy since it can offer new opportunities for organizations to acquire new markets that may otherwise be difficult to reach effectively, and it is beneficial to the organizations involved to alleviate costs when entering new markets by using the established equity of the second brand (Aaker, 2004; Kapferer, 2004; Keller, 2003), moreover, it can also help the company to increase consumers' perceived quality and image toward their brand (Keller, 2003). In sum, many empirical studies in brand alliance research have proved that when exposed to a brand alliance, consumers will evaluate an unknown brand higher than



the same brand without an ally (Rao and Ruekert, 1994; Rao, Qu, and Ruekert, 1999; Simonin and Ruth, 1998).

Some analysts anticipate that, although the rapid development of Chinese indigenous brands has intensified in recent years, they will not be able to successfully establish themselves as brand names, even with the JVs and acquisitions that have taken place. Since the biggest challenge is in R&D, those Chinese brands that are able to bring innovation into the picture will have the best opportunity to build strong brands.

BYD has long been associated with innovation and the perceived quality of its batteries is high, resulting in a very powerful backlist of international clients. BYD has leveraged its core competency in rechargeable batteries and entered a challenging industry to support its growth. The researcher believes that the association with innovation, plus the positive associations of the Daimler Mercedes venture and the Warren Buffet investment, will bring a different dimension to the BYD brand, building powerful brand equity and positive associations for both BYD and other Chinese brands.

In their study Lii and Cheng (2009) found out that a co-branding strategy that uses the primary brand of the alliance brand with the current brand can significantly dilute the negative COO stereotype. They added, consequently for Chinese companies that find it difficult to build its own brand due to negative COO stereotype the co-branding could be a good strategic approach to eliminate that effect.

**Thus the conclusion that the above mentioned analysis could strongly answer the question that joint ventures and co-branding are positively affecting brand equity.**

**Question # 4: Is the perceived value of Chinese brands supporting the brand equity of Chinese brands?**

The following will address the question of how Chinese brands' perceived value is affecting positively the brand equity of Chinese brands, and will consist of two themes.

BYD has sold several hundred e6 electric cars in China, mostly to government entities, and is now competing against well-established automakers and offering pure electric vehicles (EVs) since the end of 2012. Among their competitors, Toyota, Honda, and Ford will have pure electric cars on offer in the US by 2013; joining Nissan and Tesla in the segment (Reuters, 2011). Will this increase BYD's perceived value to the consumer? This group of competitors typically targets the middle classes with innovative technology. How could this add to BYD's brand equity and perceived value?

Unlike Interbrand – who have yet named no Chinese brands in their top global 100 – BrandZ placed 12 Chinese brands in their 2011 Top 100 Most Valuable Global Brands; an increase from seven in 2010, and only two in 2006.

Together the Chinese companies in BrandZ's list are worth \$259 billion in brand value; this represents 11% of the total brand value of the top 100. They include China Mobile, the country's largest brand, which ranks 9<sup>th</sup>, and Baidu, a search engine that grew 141% in brand value in 2012, which ranks 29<sup>th</sup>. The others are: China Life Insurance (33<sup>rd</sup>); the Agricultural Bank of China (43<sup>rd</sup>); Tencent/QQ, a social network (52<sup>nd</sup>); PetroChina (78<sup>th</sup>); Ping An, an insurance company (83<sup>rd</sup>); China Telecom (91<sup>st</sup>); and four banks.

According to BrandZ report, the expanding presence of Chinese brands in its top 100 list reflects the transformation of China from a centre for low-cost production to a nation capable of product innovation and marketing originality. Years of manufacturing consumer goods for Western markets

have endowed Chinese businesses with the knowledge, capital and insights necessary for creating their own products and brands. That endowment is becoming more important now. As Western factories move to lower-wage markets, the redefinition of “Brand China” is not just an evolutionary step but also an economic imperative. Fortunately, the redefinition of “Brand China” is well advanced, shifting from cutting costs to adding value. BrandsZ also reported that BYD, which began as a supplier of batteries to mobile device manufacturers, developed the first mass-produced plug-in hybrid car in just over two years – a development that drew the interest of Warren Buffet, along with his investment of over \$200 million – and that the company intends to export to the US.

### **Theme 6: Segmentation and Positioning**

Although Chinese brands were always more inclined to attract the value-for-money consumer – and were successfully establishing their presence in countries such as Thailand, India, and Brazil – BYD’s move to North America is a step that implies many positive messages for its brand awareness, perceived quality, associations and image.

According to one industry expert, movement from a low segment to higher segment will always change the positioning of a brand and will add to its perceived value. Chinese brands require a paradigm shift in their mindset. They need to focus on improving their product quality, the biggest obstacle for them, which will probably be the strongest factor in increasing their perceived value.

A brand expert from Mexico said: “When Chinese brands start to surprise the world with great design and innovation, then leading brands will start designing in China. Today, China only copies stuff and produces it cheaply.” If Chinese brands make that mindset change and start delivering true quality, international brands will have to watch out. A brand expert from India sums it up nicely: “Chinese brands at present are mostly about low cost and poor quality. If they can gear up to offer high quality and lower costs, they will start posing a serious threat to international brands.”

Another industry expert noted: “The Chinese have reached a stage where they can enforce their price point and their products.” This statement connects with Interbrand’s brand strength multiplier, in which a leading brand helps in setting a price point.

### **Theme 7: Perceived Value of Branding**

From starting as being perceived as a maker of cut-price imitations of best-selling Toyotas, BYD is growing into one of China’s most successful automotive manufacturers and leading the electric car market.

BYD’s strategic approach has always been to bring real value to the market. The mindset of its founder is a focus on R&D to drive the development of the group. It has launched a series of models to meet the needs of different consumers, including the F3 series, the F6, the F0, and the M6. In 2011, BYD stepped up its pursuit of improved technology and quality, enhancing the overall quality and performance of existing models, and introduced its first SUV model and new models of the medium-to-high-end sedan G6; all showed excellent market performance. These two new models proved BYD’s outstanding R&D strength and were a milestone for the group’s automotive business.

Innovation-driven value is part of the BYD mindset. Rather than focusing on cost-cutting and producing small cars, it has developed its own technology by incorporating its breakthrough battery design technology into China’s first electric hybrid and the all-electric vehicle. Analysts anticipate that China will become the largest electric vehicle (EV) market, due to its large niche segments of the auto market and strong government support. BYD could be the most promising EV maker, due to its distinct positioning in the battery and auto industry.

In an interview with the Head of the Automotive Trade Association in Egypt, he said: "I believe Chinese automotive brands are not currently gaining the profits they ought to, since the investment they are making on multiple fronts is eating into them."

The Deputy General Manager of Brilliance Egypt commented that Chinese brands may be doing well on the revenue side, but on the profit side their performance is not equally good. He said that moving from copying to innovating requires high investment. Investment in innovation will enable the BYD brand to establish a long-standing technological position that will empower the brand and increase its perceived value in the consumers' mind and supports addressing niche segments that value green technology.

**Thus the conclusion and the above mentioned analysis support the question that perceived value positively affects brand equity; however, the case of BYD did not prove it.**

Martin Roll, a business and brand strategist, foresees that in the next five years Asian brands will benefit from international efforts in both corporate branding and product brands. He anticipates that branding will become one of the primary strategies for Asian brands to steer their businesses. For Asian brands it is crucial to focus on differentiating their brands and building their brand strategies for future success. The building up of Asian and Chinese brands will support their capture of a larger part of the financial value and enhance their profit streams. He said: "Asian companies need to move up the value chain through strategic branding and they have all the capabilities needed to achieve this in the years to come."

**The researcher anticipates that GEELY & BYD with strong brand equities can open a new world for Chinese and the world's automobile industry.**

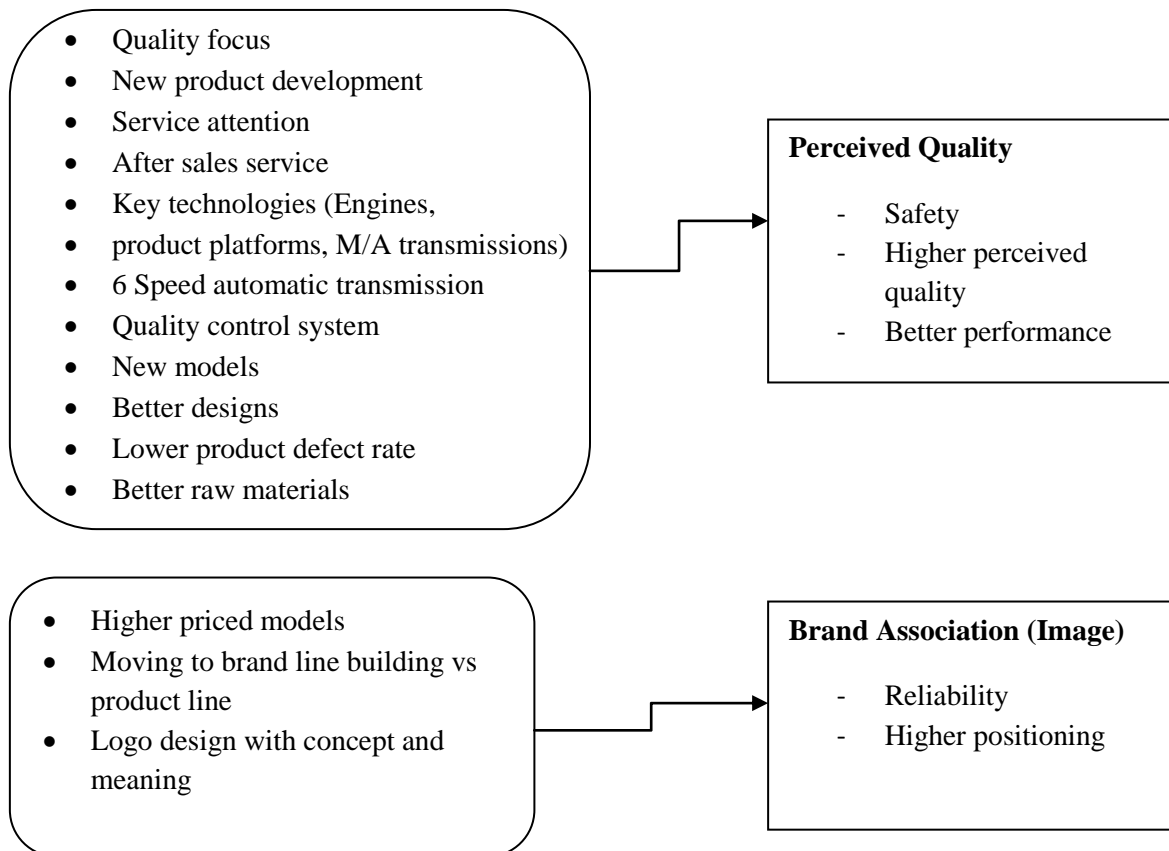
## SUMMARY OF ANALYSIS

The below section will summarize the analysis part demonstrating the accepted questions and their subsequent themes and their positive relation to Chinese brand equity. Two questions will be explored for GEELY brand followed by BYD brand.

### Antecedents of Brand Equity – GEELY BRAND

**Question: How is product quality supporting the brand equity of Chinese brands?**

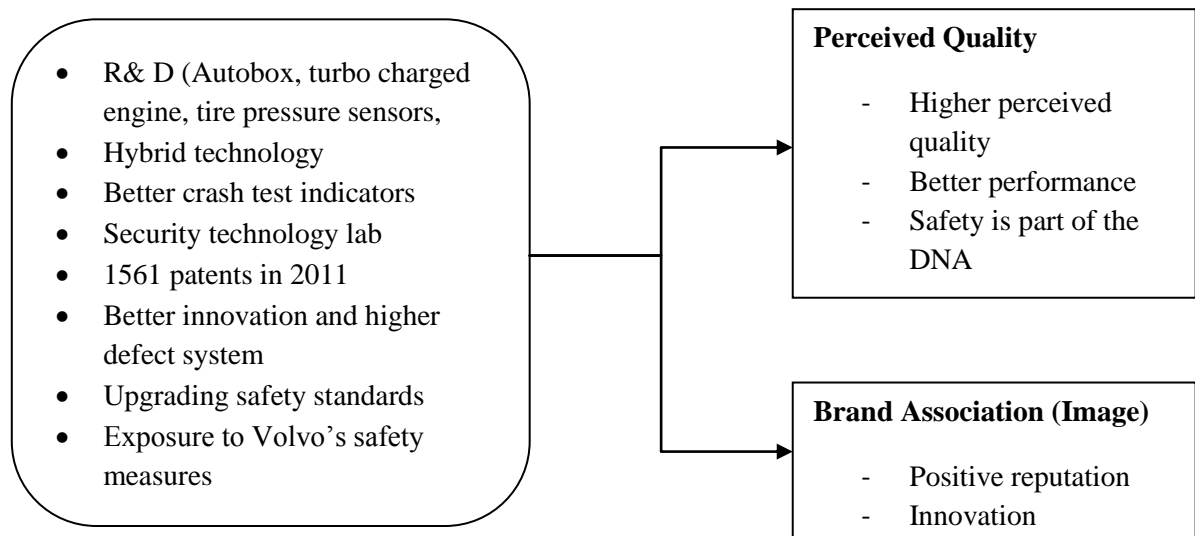
**Theme: Product Quality**



## Antecedents of Brand Equity – GEELY BRAND

**Question: How is product quality supporting the brand equity of Chinese brands?**

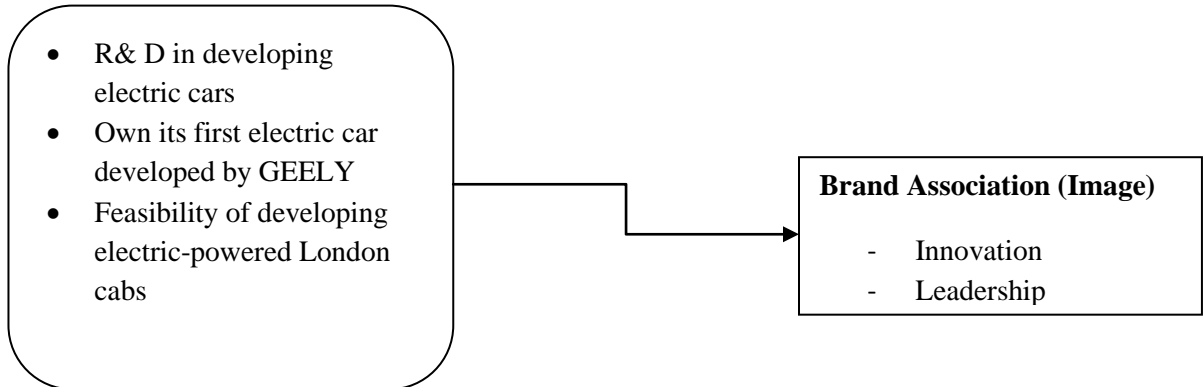
**Theme: Technology Innovation & Safety**



## Antecedents of Brand Equity – GEELY BRAND

**Question: How is product quality supporting the brand equity of Chinese brands?**

**Theme: Hybrid & Green Vehicles**

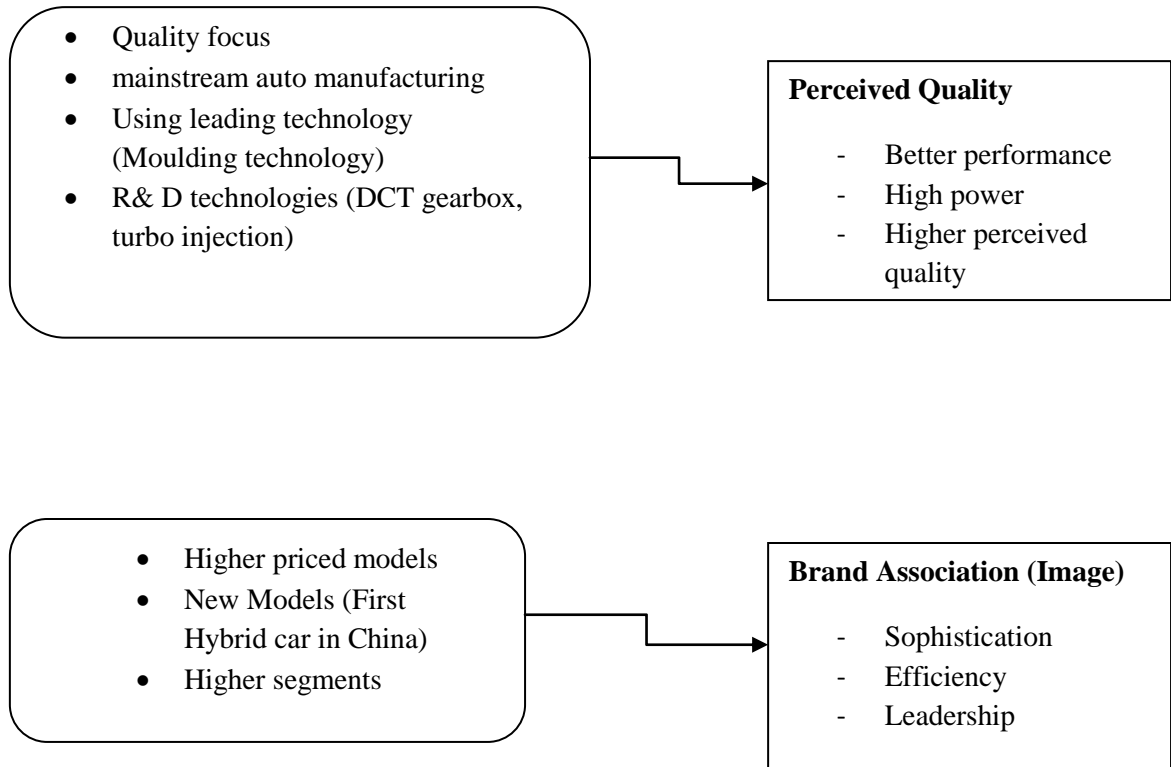




## Antecedents of Brand Equity – BYD BRAND

**Question: How is product quality supporting the brand equity of Chinese brands?**

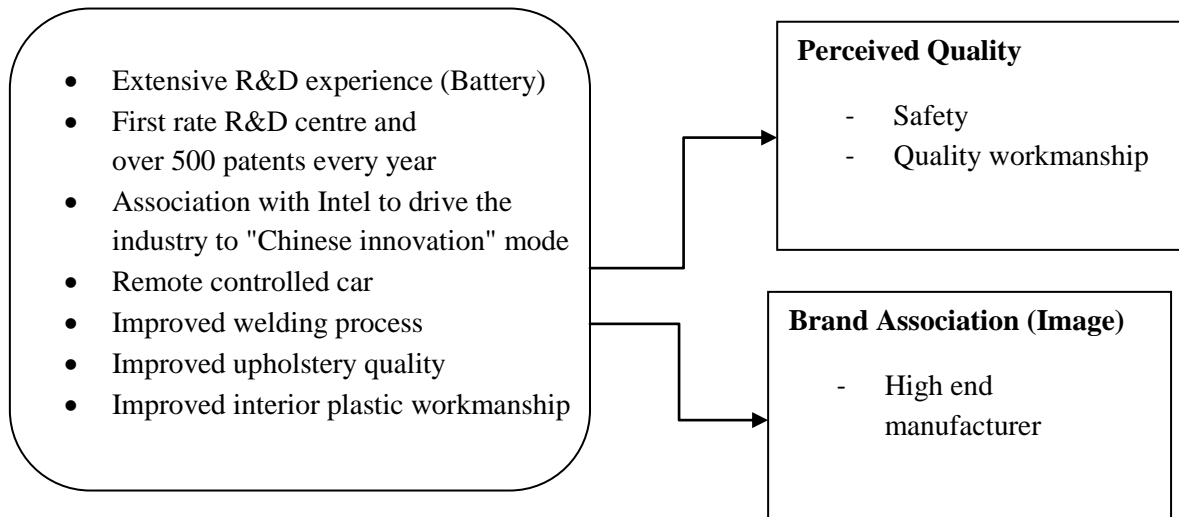
**Theme: Product Quality**



## Antecedents of Brand Equity – BYD BRAND

**Question: How is product quality supporting the brand equity of Chinese brands?**

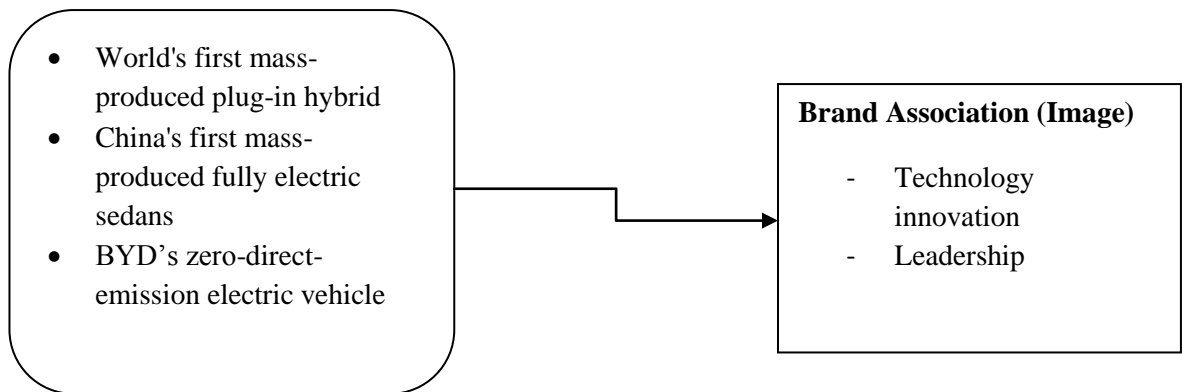
**Theme: Technology Innovation & Safety**



## Antecedents of Brand Equity – BYD BRAND

**Question: How is product quality supporting the brand equity of Chinese brands?**

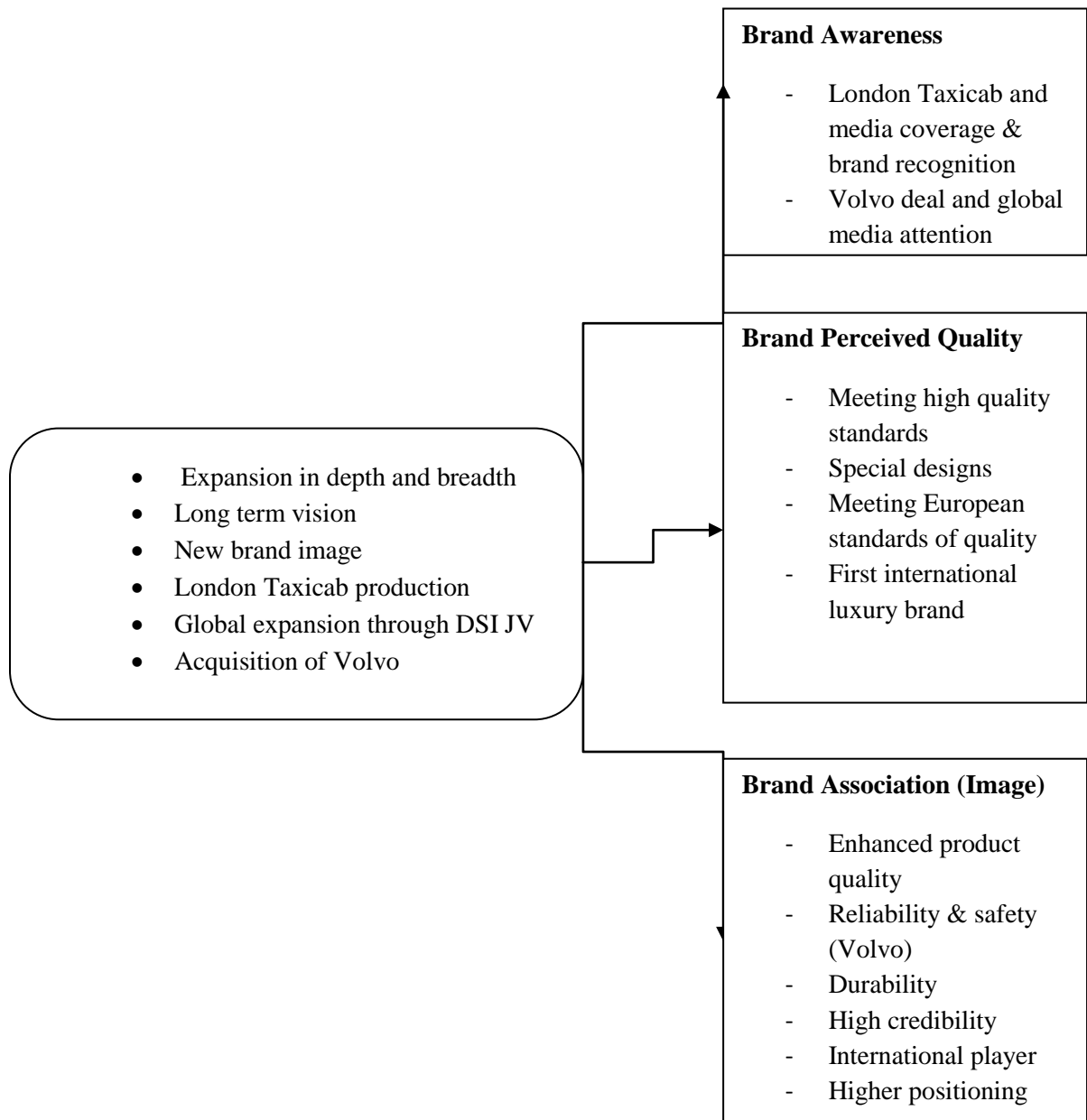
**Theme: Hybrid and Green Vehicles**



## Antecedents of Brand Equity – GEELY BRAND

Question: How are joint ventures and co-branding supporting the brand equity of Chinese brands?

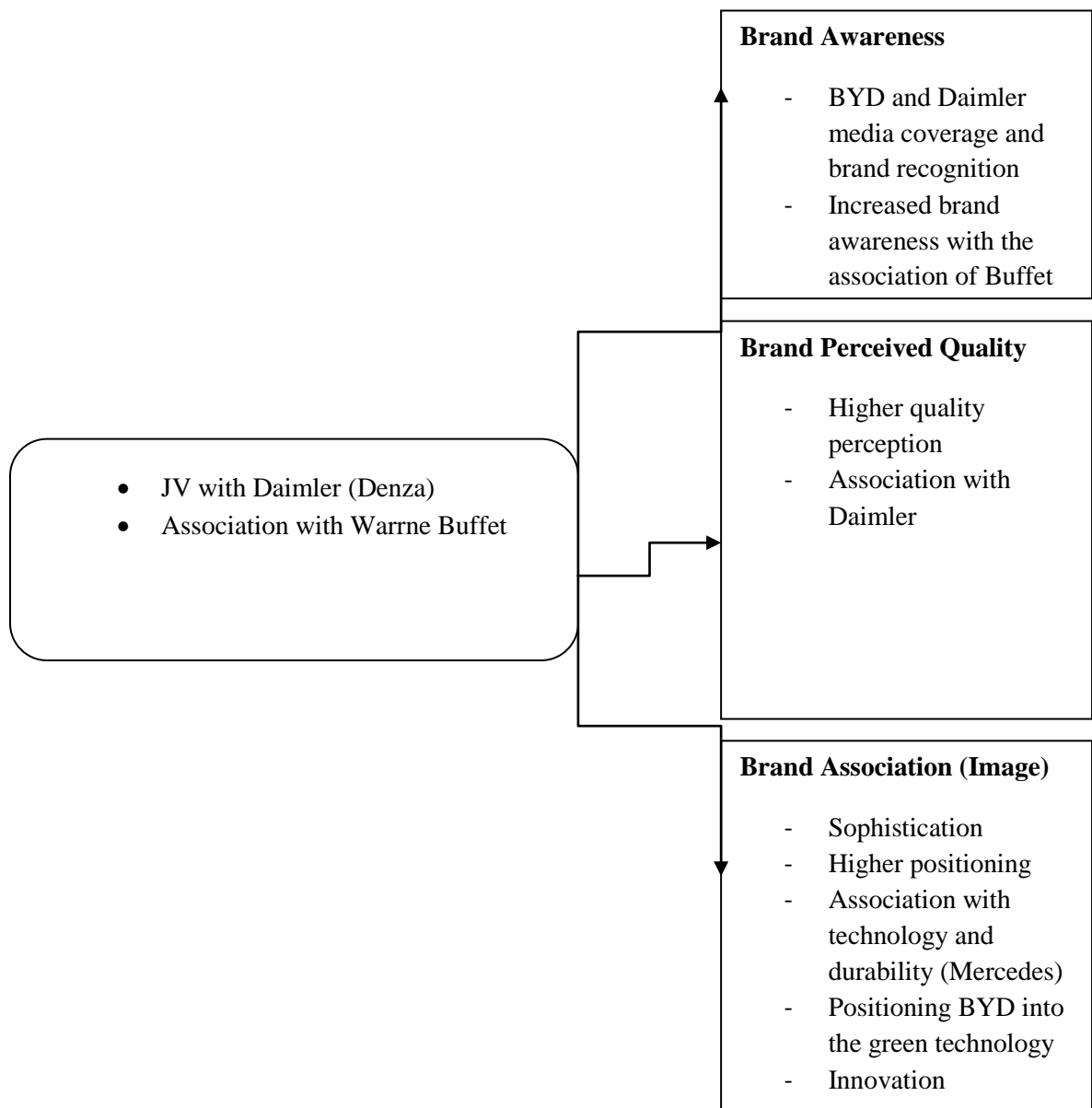
Theme: Joint Venture & Co-Branding



## Antecedents of Brand Equity – BYD BRAND

Question: How are joint ventures and co-branding supporting the brand equity of Chinese brands?

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## PART IV: FURTHER ANALYSIS

### 1. Differences Between GEELY and BYD

	<b>GEELY</b>	<b>BYD</b>
<b>Business Scope</b>	Car manufacturing is the original and sole business.	Started the automotive business in 2002, after seven years of success in the rechargeable batteries business.
<b>International Markets</b>	GEELY is by far better spread than BYD.	BYD's geographical expansion is limited, though it has entered the US market.
<b>Joint Ventures &amp; Co-Branding</b>	GEELY has adopted JVs and acquisitions as its strategic growth approach, i.e. London Taxicab, Drivetrain Systems International, Faurecia of France, Visteon of USA, Hsin Chong of Taiwan, Yazaki and Tachi-S of Japan, and Mando of Korea, and Volvo.	Few JVs, namely the Daimler venture, and the positive association of Warren Buffet buying a 10% stake in BYD.
<b>Products and Models</b>	Around 30 models.	Around eight models.
<b>Market Segment</b>	Low, Middle, and Upper.	Low and Middle.
<b>Branding</b>	GEELY is explicitly building a brand strategy; a term often used	BYD's approach to branding and usage of branding terms is

	in their communications.	very humble
<b>R&amp;D</b>	GEELY's investment in R&D is centred around safety technology	BYD's success is attributed to considerable investment in R&D and is well rounded towards this positioning

**Table 5.3: Differences Between GEELY and BYD**

## 2. Similarities Between GEELY and BYD

	<b>GEELY</b>	<b>BYD</b>
<b>Type of Business</b>	Started as a family business.	Started as family business, went into IPO in 2011.
<b>Leadership and Vision</b>	Li Shufu is a visionary character who has driven GEELY to new horizons.	Wang Chuan-Fu's leadership is driving China's EV technology
<b>Sales</b>	20,964,931 MM (RMB) in 2011	23,968,153 MM (RMB) in 2011
<b>Profits</b>	1,543,437 MM (RMB) in 2011	1,742,896 MM (RMB) in 2011

**Table 5.4: Similarities Between GEELY and BYD**



### 3. Summary of Accepted/Not Accepted Questions

After analyzing the case-studies of both GEELY and BYD, and following the interpretation of the six questions, three questions were accepted, while the researcher rejected two questions.

Accepted	Not Accepted
Chinese country of origin is no longer an obstacle to building strong brand equity.	Geographical presence is positively affecting the brand equity of Chinese brands
Product quality is positively affecting the brand equity of Chinese brands.	Perceived value is positively affecting the brand equity of Chinese brands.
Joint ventures and co-branding are positively affecting the brand equity of Chinese brands.	

**Table 5.5: Summary of Accepted/Not Accepted Questions**

#### 4. Rival Interpretations

Rival Interpretation	Theoretical Interpretation
<p>Some analysts anticipate that, although there has been rapid development in Chinese indigenous brands in recent years, the Chinese will not be able to successfully establish themselves as brand names, even with the JVs they have formed and the acquisitions that have taken place.</p>	<p>Chinese brands are getting into a strong position to build their brands through product quality, JVs, acquisitions, and Co-Branding.</p> <p>It is worth noting that since the biggest challenge is in R&amp;D, those Chinese brands bringing innovation into the picture will have the best opportunity to build strong brands.</p>
<p>Most Chinese consumers are still price-oriented. Compared with world-renowned brands, Chinese brand values represent a smaller proportion of market capitalization.</p>	<p>China's economy is developing at an incredible rate. As the most valuable asset for an enterprise, brand is making a unique contribution in this rapid economic growth. With an increasing per capita disposable income, and a wide range of goods and services, brand is playing a real and significant role in the purchase process. And, even though most consumers are still price-oriented, Chinese brands are beginning to grasp their great potential and some of the top Chinese brands have enormous room for growth.</p> <p>It is worth noting that the Chinese middle class is expected to reach 1 billion, with a more tendency towards luxury brands and less exposure to the old legacy of Chinese brands. This will in fact encourage and support Chinese organization to</p>

	build strong brands.
The claim that JVs and co-branding are building a powerful brand is not necessarily true, since GEELY has only two really worthy ventures: the Volvo deal and London Taxicab.	Though the Volvo acquisition and London Taxicab production are merely two deals, the scale of these two deals, and the impact they are bringing to the brand equity of GEELY, is certainly adding real substantial value for GEELY. Furthermore, the brand awareness and recognition GEELY is still getting from the media, case-studies, and analysis since the Volvo acquisition is adding to the equity of the brand; in addition to the perceived quality of GEELY when associated with the Volvo brand and the positive associations encompassed.
Analysts still regard GEELY as a Chinese start-up.	Though some analysts still regard GEELY as a Chinese start-up, hardly known in the outside world, it is worth noting that it is also referred to as a phenomenal example of a Chinese automaker.
Professor of Marketing at the American University in Cairo (AUC) – argued that Chinese brands will take a longer time to reach the Interbrand global list.	Though from an academic point view, Chinese brands are expected to take a longer time to reach the Interbrand global list, all the industry experts predicted the complete opposite, saying that this will take from three to five years maximum.
In a research conducted by Interbrand in 2008, it	Though, this report placed a great impact of the

<p>was revealed that the COO effect differs from industry to industry. In some, such as the automobile and airline industries, 60 -70% of respondents foresaw a high impact for COO; while foreseeing a lesser effect regarding the manufacture of personal computers, laptops, mobile phones and other electronic devices.</p> <p>Several studies show that consumers' involvement level (high versus low) and type (situational versus enduring) moderates the effect of COO on product quality evaluations. (Gurhan-Canli and Maheswaran, 2000b; Ahmed et al., 2004; Lee, Yun, and Lee, 2005) As such, when purchasing a high involvement and enduring product, the impact of COO, whether positive or negative, is significant</p>	<p>COO within the automotive industry, automotive industry experts interviewed for this study unanimously agreed that the negative effect of China's COO reputation is diminishing with time, and that many factors – such as the introduction of Chinese self-branded cars to Europe and the US – will help to eliminate it completely.</p> <p>Industry experts affirmed that the Chinese auto industry is witnessing a dramatic shift with the attention of Chinese to quality, innovation, green technology, acquired know-how, and the importance given to brand equity.</p>
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**Table 5.6: Rival Interpretations**

## **5. Comparison of Triangulation and Results of Existing Studies**

The following will compare between the three data source triangulation and shed light on the similarities and differences. The researcher met the requirements for triangulation by using multiple sources of evidence:

- Industry Expert Interviews
- Academic and practitioners Interviews
- Pre-coded analysis for second analysis (External researcher)

In view of the results, both industry experts, and external researcher analysis agreed on the same output with regards to the antecedents of brand equity and the diminishing effect of COO.

The Academic point of view seemed more conservative with regards to their opinion about the shift within Chinese context and its direct impact as antecedents to building Chinese brands.

The Academic point of view, foresee that Chinese will take more time to be able to make it successfully to the era of lucrative brand building and anticipate that the effect of COO will still hold for a longer period of time. They do not foresee Chinese brands appearing on the list of Interbrand before ten years to come. On the other side, industry experts foresee Chinese brands on the list of Interbrand in less than five years.

The Academic point of view, though agree that there is a shift in the Chinese attention to product quality and safety measures, they still believe that the mind set of manufacturing is still controlling the way they approach the market, and that brand building mindset is not yet driving their strategic approach to the market. On the complete opposite, industry experts agreed anonymously that product quality focus has been strategically the drive for Chinese automotive players not only for GEELY and BYD but even for other brands such as Brilliance, Cherry, Great Wall to name few.

Though the research did not affirm the question that relates to the distribution presence and its impact on brand equity, industry experts expect that soon the expert strategy and the spread of Chinese products will support positively on building a powerful brand equity for Chinese brands. The Academics pointed that the presence in itself is not a sign of positive brand equity, it could fire back if the brands are not meeting the standards and requirements of the respective countries they are exporting to.

Overall, the industry experts were more optimistic about the effectiveness and the responsiveness of Chinese in their pursuit to building strong brand equity. The external research backed up the industry experts' point of view. However, the Academics were inclined to a more conservative view, not that they disagree, actually they agreed on the direction but questioned the efficiency and time factor.

## 6. Major Findings on the Antecedents of Brand Equity & a Comparison with the Results of Existing Studies

Extent literature suggests that brand equity has both functional and experiential antecedents (Kocak, Abimbola, and Ozer, 2007). The functional antecedents reflect the presence of a brand's intrinsic utilitarian aspects and its ability to satisfy consumers' functional needs and wants (Keller, 2001). Examples of functional antecedents are reliability, durability, style, design, price, logo, distribution intensity, warranty, and effectiveness.

<b>Existing Studies</b>	<b>Antecedents of Brand Equity</b>
In recent studies where brand origin information had to be acquired at the point of purchase through active search or accessed from memory, the role of COO in brand choice was nominal at most. (Samiee, Shimp, and Sharma, 2005; Liefeld, 2004; Madden, 2003)	COO is no longer affecting the Brand Equity of Chinese brands
In an experimental design that considered the immediate impacts of ethnocentrism, brand name, product quality, and COO on purchase intentions, Pecotich and Rosenthal (2001) found that, while there was a strong significant main effect due to product quality, the other effects were not significant. In particular, there was no evidence of a main effect on purchase intentions due to COO.	COO is no longer affecting the Brand Equity of Chinese brands
Cervino, Sánchez, and Cubillo (2005) confirmed through structural equations that COO evaluations influence perceived value (as noted by Hui and Zhou, in 2002) in addition to a new construct called "brand success". Brand success consequently affected purchase intentions, while there was no direct effect of COO evaluations on purchase intentions.	COO is no longer affecting the Brand Equity of Chinese brands
Some studies suggest price information misleads COO information when both are known to buyers (Ahmed et al., 2004; Lin and Kao, 2004). Others researchers propose that price and COO interact to affect consumers' product quality	COO is no longer affecting the Brand Equity of Chinese brands

<p>evaluations and that neither variable produces significant singular influence when presented with the other (Miyazaki, Grewal, and Goodstein, 2005). Still others suggest that, while price may directly affect purchase intentions, COO does not – albeit COO can affect the same consumers' perceptions of product value. (Hui and Zhou, 2002)</p>	
<p>Studies by Chung, et al (2009) and recent research by Wong, et al (2008) in China highlight the importance of manufacturing COO effects on young people. They say that due to globalization young people are used to seeing products from around the world and rarely relate to the owner of brand; therefore the country image has no great effect on them</p>	<p>COO is no longer affecting the Brand Equity of Chinese brands</p>
<p>A. Van Riel, C. de Mortanges, et al., (2004) have investigated the relevance of several marketing mix dimensions for the creation of industrial brand equity for both product and corporate brands. They also stressed that in certain industries, price is mostly viewed as the most significant purchasing decision criterion,</p>	<p>Price and Perceived value positively affect the Brand Equity (<i>though both cases did not prove the deduced proposition, yet recent studies support the relation</i>)</p>
<p>Others authors estimate that price accounts for not more than 70% when taking a final decision (Mudambi et al., 1997). Perceived value is therefore a significant concept especially in industrial markets. It is important that the perceived value by the buyer surpasses the price.</p>	<p>Price and Perceived value positively affect the Brand Equity</p>
<p>However, quality can be considered equally important as price in its effect on Brand Equity (Alvarez &amp; Galera, 2001).</p>	<p>Product Quality positively affects Brand Equity</p>
<p>Distribution performance plays an important role in creating satisfaction with a product in industrial markets (Mudambi et al., 1997)</p>	<p>Geographical Presence positively affects Brand Equity (<i>though both cases did not prove the deduced proposition, yet recent studies support</i></p>



	<i>the relation)</i>
Buyers indicate that service is also important to them, to the extent they are willing to pay more for what they perceive to be of superior service (Duckler, 2001). Both service quality and product's physical quality form the basis for competitive advantage (Alvarez & Galera, 2001)	Product Quality positively affects Brand Equity
Drivers identified in previous studies were: physical product attributes, distribution services (ordering and delivery), and support services	Product Quality positively affects Brand Equity Geographical Presence positively affects Brand Equity
A. Van Riel, C. de Mortanges, et al. (2004) revealed that past investments in the 5 P's of the marketing mix (product, place, people, promotion and price) contributes to the way buyers perceive brand equity. Buyers' perceptions about the 5P's have an influence on the way they perceive and evaluate the brand. This, in turn, affects their purchase decisions. By investing in the 5P's, companies create brand awareness and a positive brand image	Product Quality positively affects Brand Equity Geographical Presence positively affects Brand Equity Price and Perceived value positively affect the Brand Equity
A. Van Riel, C. de Mortanges, et al. (2004) confirmed that their proposed antecedents of the two components of industrial brand equity (Product Brand Equity and Corporate Brand Equity) match with the P's of the marketing mix: product, place, promotion, price and people. The 5P's are usually fully controlled by the company in order to make exchange possible. The study therefore affirmed that brand equity can be explained as a result of past investments in the marketing of the brand (Keller, 1998).	Product Quality positively affects Brand Equity Geographical Presence positively affects Brand Equity Price and Perceived value positively affect the Brand Equity
Yoo, Donthu and Lee (2000) measured the impact of five marketing mix drivers in three product categories: athletic shoes, camera film, and color TV. The marketing	Geographical Presence positively affects Brand Equity Price and Perceived value positively affect the Brand Equity

<p>mix elements studied were price, store image, distribution intensity, advertising spending and price deals promotions. Each of these elements was tested to influence brand equity sources (brand awareness/association, brand quality and loyalty). Their results show that high advertising spending, high-price, good store image and high distribution intensity affect consumers' perception of quality, awareness and loyalty. The marketing mix elements were also statistically significant in their indirect impact on brand equity. On the opposite, the results show that frequent price deals influence negatively the perception of quality.</p>	
<p>A study conducted by Herrmann et al. (2007) proposed that five specific performance areas relate to an insurance company's marketing mix, and affect brand equity. The five performance areas are product performance (including indicators such as price-performance ratio attractiveness, consideration of individual requirements), field personnel (interpreted as advisers' technical knowledge and friendliness), communications (company presence in relevant media), in-house personnel performance (measured by items as reliability of the administration) and company resources (measured by items like serious style of senior managers). Out the five marketing activities, product performance, field personnel and in-house personnel performance had a statistically significant impact on brand equity (Herrmann et al., 2007). Product performance is the most important, followed by field and in-house personnel performance.</p>	<p>Product Quality positively affects Brand Equity</p>

<p>Yoo, Donthu, &amp; Lee (2000) suggest that brand equity can be created, maintained, and expanded by reinforcing the dimensions of brand equity. They pointed out that numerous dimensions precede brand equity. For instance, any marketing action could affect brand equity since it signifies the effect of accumulated marketing investments in the brand. For example, brand-name recognition with strong associations, perceived quality of product, and brand loyalty can all be extended through precise long-term investment.</p>	
<p>Another distribution dimension relates to building global brands. Importantly, to become a global brand producer, firms must recognize that branding strategy is an important way to sustain a competitive advantage. (Gordon, Calantone, &amp; di Benedetto, 1993; Kumar, Bohling, &amp; Ladda, 2003)</p>	<p>Geographical Presence positively affects Brand Equity</p>
<p>Results of Park, Jun, and Shocker (1996) suggested that when a composite brand extension is initiated the impact on it of the lead brand is greater than that of the secondary brand.</p>	<p>Joint Ventures &amp; Co-branding positively affect Brand Equity</p>
<p>Siminon and Ruth (1995) studied the impact of specific product combinations by experimenting with brand bundling, an activity similar to co-branding. They suggested that bundling a new brand with two well-liked products positively affects the bundle and, indirectly, the new brand.</p>	<p>Joint Ventures &amp; Co-branding positively affect Brand Equity</p>
<p>Siminon and Ruth (1995) also studied consumer attitudes towards brand alliance (co-brands). Their research suggested that consumer attitudes towards a specific brand alliance is influenced by the attitude towards the individual brands that compose the alliance and, in the reverse, consumers' attitudes toward partner brands prior to the</p>	<p>Joint Ventures &amp; Co-branding positively affect Brand Equity</p>

alliance considerably impact their attitude towards the alliance.	
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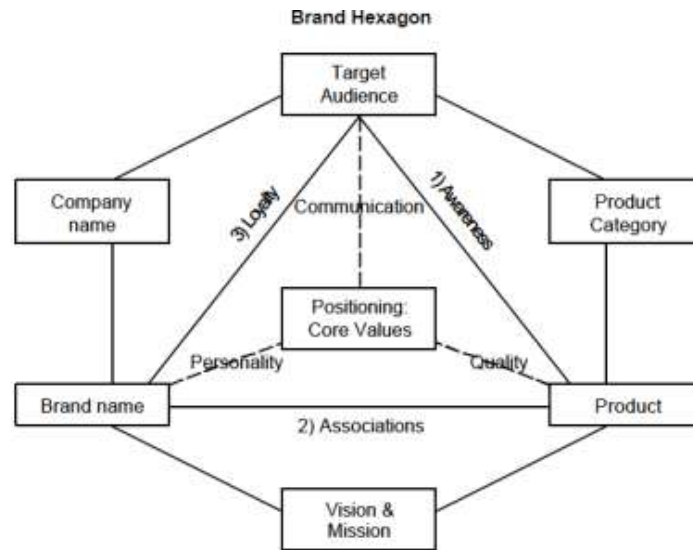
**Table 5.7: Major Findings on the Antecedents of Brand Equity & a Comparison with the Results of Existing Studies**

## 7. Contribution of the Research to Branding Theory

Two obvious models can demonstrate the contribution of this study to the branding theory; Urde Brand Hexagon and the Framework of Measuring Brand Equity. The *Urde's Brand Hexagon* could easily elaborate the integration of brand equity and brand identity with a company's direction, strategy, and identity.

For both GEELY and BYD the lower part of the model – mission and vision – is well expressed; they are moving towards a brand oriented organization. The right side of the model exposes the reference function, represented in the product category, which is examined rationally; and where both brands are shifting gears towards a higher product category. However, the left side of the model reveals the emotional function, i.e. corporate and brand name, which are evaluated emotionally which still needs more focus from both brands and Chinese brands in general.

The real challenge of Chinese brands is to understand the upper part of the model reflecting the way the target customers comprehend the brand. The other challenge for Chinese brands lies in the middle of the model which comprises the positioning and core values of the brand that Chinese lacks and would properly complete the picture to build significant brands. In a brand oriented organization, the objective is to create value and meaning demanded by customers to strategically move into a brand oriented organization. (Urde, 1999, p. 130)



**Figure 5.10: Urde's Brand Hexagon**

Building positive brand associations pave the way to the creation of a positive brand image, which is a conceptual predecessor to significant brand equity. (Aaker, 1991; Faircloth *et al.*, 2001)

Chinese brand equity could also be well developing on the functional attributes (Tangible feature of a product) versus the non-functional attributes which comprise symbolic attributes (Aaker, 1991) that still needs more development.

As mentioned by Aaker (1996) perceived quality is “the core construct” in measuring brand equity. Moreover, perceived quality is a component of brand value that helps the consumer selects one particular brand over other competing brands. (Yoo *et al.*, 2000) Chinese brands should focus on the perceived quality of their brands to be able to create strong brand equity.

The second model is the *Framework of Measuring Brand Equity*.

Keller has identified a comprehensive map for building customer-based brand equity; starting with choosing the relevant brand elements – such as brand name, logo, symbols, character, packaging, and slogan – through developing marketing programs and properly managing the marketing mix, and on to leveraging the brand’s secondary associations, all of which would help in delivering a customer-

based equity, as illustrated in Figure 5.11. If we applied this brand equity framework to both GEELY and BYD separately based on the previous analysis of each question, the following could be deduced:

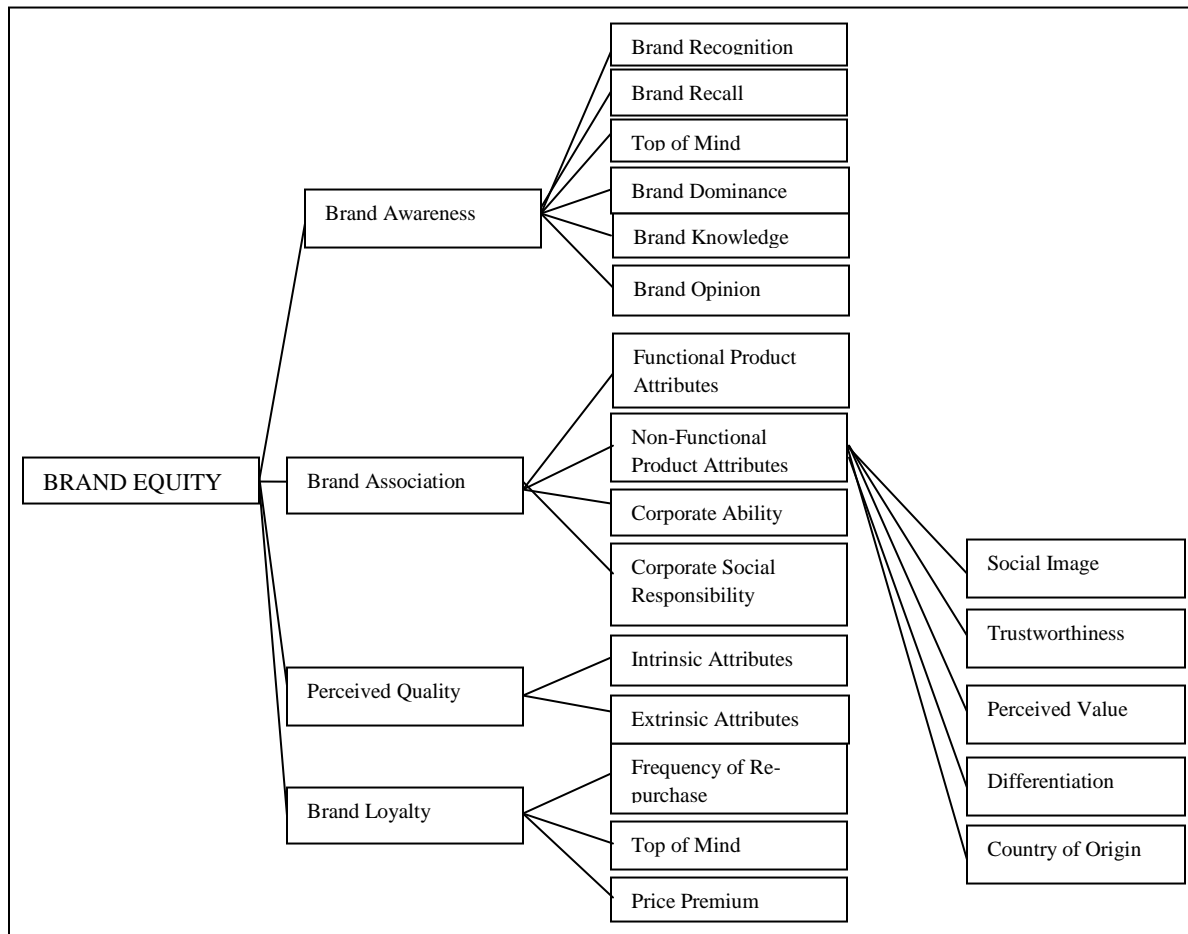


Figure 5.11: A Framework for Measuring Brand Equity

**a. GEELY Brand and the Framework for Measuring Brand Equity**

For analysis purpose, the researcher is applying the framework on GEELY brand to elaborate on the specific antecedents of Chinese brand equity. In terms of brand awareness, GEELY managed to establish a good position through the Joint Venture and Co-Branding strategy. The acquisition of Volvo added to GEELY’s brand awareness in terms of brand recognition, brand recall, and top of mind awareness. The production of London Taxicab is adding to the brand dominance and brand knowledge since it reflects on the brand’s ability to abide to strict quality standards and meet them.

In terms of brand associations, GEELY is developing significantly on the product quality dimension with the new strategy declared (July 2012) of ‘QUALITY FOCUS’ through globalization, sustainable growth, and brand management as thoroughly discussed in the analysis section.

As for the non functional product attributes such as perceived value, differentiation, and COO, GEELY is moving ahead with Green Technology into hybrid and electric cars though these strides are still modest but it indicates a differentiation element that will positively affect the brand equity. GEELY for sure has the corporate ability, the leadership and the strategic intent to support its pursuit in building strong brand equity. In terms of perceived quality, Zeithaml (1988) and Steenkamp (1997) classify the concept of perceived quality in two groups: intrinsic attributes and extrinsic attributes. The intrinsic attributes are related to the physical features of a product (e.g. colour, flavour, form and appearance). Extrinsic attributes are related to the product, but not in the physical form (e.g. brand name, stamp of quality, price, store, packaging, and production information. Accordingly, this dimension of brand equity is very subjective to each brand though GEELY is trying to address some of these elements, perceived quality relates to the extent to which other elements of the brand equity “Brand Awareness” and “Brand Associations” are well established.

To sum it up, we can conclude that GEELY is focusing on the *functional aspects* by trying to improve the product quality dimension this is helping in addressing the perceived quality and brand association dimensions. Whereas more focus is geared towards the cognitive part through Joint Ventures and Co-branding which in turn helping to achieve more on the brand awareness dimension.

<b>Brand Equity</b>	<b>Attributes</b>	<b>GEELY</b>	<b>BYD</b>
Brand Awareness	Brand recognition	+++	+
	Brand recall	++	+
	Top of mind	+	+
	Brand dominance	+	+
	Brand knowledge	+	+
	Brand opinion	-	-



Brand Associations	Functional product attributes	+++	+++
	Non functional product attributes (Social image, trustworthiness, Perceived value, differentiation, COO)	++	++
	Corporate ability	++	++
	Corporate Social Responsibility	-	+++
Perceived Quality	Intrinsic attributes	++	++
	Extrinsic attributes	+	+

**Table 5.8: A Framework for measuring Brand Equity for GEELY and BYD**

(+++) indicates that the brand is establishing strong attempts to support brand equity, where (-) indicates the irrelevance of the attribute to the current analysis.

### **b. BYD Brand and the Framework for Measuring Brand Equity**

In terms of brand awareness, BYD managed to establish a good position through the partnership with Germany's Daimler in 2010 which marked an important milestone for its brand awareness, recognition, and top of mind awareness.

On the corporate level, BYD is undertaking its responsibilities as a good corporate citizen with its commitment to give back to society, and realizing energy conservation and emission reduction through the development of the new energy vehicle businesses. BYD views this strategic approach as a contribution to the social development of the world. This adds to the brand association dimension both functional and non-functional attributes. Again, BYD is stressing more on the *functional aspects* which in turn reflect on the brand associations.

Wang Chuan-Fu is a complex person; modest yet with a vision of BYD becoming the world's largest car maker by 2025. BYD was the first Chinese brand to produce a hybrid car, and the first Chinese brand to introduce the all-electric car. The corporate ability of BYD as the world's largest manufacturer of rechargeable batteries and the second largest producer of cell phone batteries is giving BYD a real competitive advantage into technology and innovation that would significantly support the brand in its pursuit to build strong brand equity.

In summary, the perceived quality is the challenge both brands need to work on to contribute to the overall brand equity creation. Yet, both brands are marking a new shift in the perception of their brands in terms of brand awareness, brand perceived quality, and brand associations.

Kapferer (1997) in his Brand Building Model stated that brand value is monetary and includes intangible assets. He says that four factors combine in the mind of the consumer to establish the perceived value of the brand are; brand awareness, the level of perceived quality compared to competitors, the level of confidence, of significance, of empathy, of liking and the richness and attractiveness of the images conjured up by the brand. He also highlighted that when building strong brands this helps in reducing risks, adds to the pleasure side of the brand, in addition to the functional elements that support the development of brands.

## 8. Example of Data Organization and Display

<b>Respondents</b>	<b>Chinese Brand Equity (BE)</b>	<b>COO and Brand Equity (BE)</b>
<b><u>INDUSTRY EXPERTS</u></b>		
<b><u>RESPONDENT 1</u> Years of Experience 38</b>	Chinese are on the right track.	Effect of COO is still there unless Chinese manage to enter the US market.
<b><u>RESPONDENT 2</u> Years of Experience 23</b>	Chinese BE is evolving at a fast rate.	The effect is diminishing and I don't think will exist in five years.
<b><u>RESPONDENT 3</u> Years of Experience 20</b>	The Chinese are reliving the Korean experience and they are building strong brands.	The effect of COO is subject to the brand's association with a joint venture.
<b><u>RESPONDENT 4</u> Years of Experience 38</b>	Chinese have reached a point where they impose their price and quality.	Their history of imitation is still associated with Chinese brands but it is changing.
<b><u>RESPONDENT 5</u> Years of Experience 38</b>	Five years ago Chinese had no experience in exports.	The effect is negligible.
<b><u>ACADEMIC</u></b>		
<b><u>RESPONDENT 1</u> Years of Experience 30</b>	Of course the perception of the Chinese in the auto industry is changing.	In the industrial business the effect of COO has almost disappeared, but business-to-consumer is still affected.
<b><u>MARKETING PRACTITIONERS</u></b>		
<b><u>RESPONDENT 1</u> Years of Experience 15</b>	The Chinese benefited from JVs and need to build their brand identities to support the build-up of their brands.	The COO effect is lower when there is a foreign JV associated with a Chinese brand.
<b><u>RESPONDENT 2</u> Years of Experience 7</b>	Chinese are making it through green technology.	COO is diminishing when the Chinese own industrial competitive advantage

<b>Respondents</b>	<b>Product Quality &amp; Brand Equity (BE)</b>	<b>JV and Brand Equity (BE)</b>	<b>Geographical Presence &amp; Brand Equity (BE)</b>	<b>Perceived Value &amp; Brand Equity (BE)</b>
<b><u>INDUSTRY EXPERTS</u></b>				
<b><u>RESPONDENT 1</u> Years of Experience 38</b>	There is a dramatic shift in their product designs.	This was strategically their first move into the industry, and it is adding to brand equity in different aspects, technology, management, etc.	If they manage to get into the US and Europe	They are moving to higher segments and this will add to brand equity.
<b><u>RESPONDENT 2</u> Years of Experience 23</b>	They are improving in product quality, performance, and variety.	Volvo acquisition will add to their brand equity for sure.	The presence in western countries will add to the BE.	There is a transformation strategy to move to a higher segment while maintaining the value for money aspect. This will support a better perception for the brand.
<b><u>RESPONDENT 3</u> Years of Experience 20</b>	Of course product development is taking the brand to a different scale away from imitation.	Joint ventures bought the Chinese time.	Of course geographical presence adds to the BE since more customers will try their cars.	Of course Chinese are improving in the quality aspect to provide high value for money, and they are leaving the cheap products and moving to a higher level.
<b><u>RESPONDENT 4</u> Years of Experience 38</b>	Product design is changing dramatically and safety is also leading to a better perception.	They will do well with Volvo. They bought time and brand image they could not do alone.	They need to prove themselves so their presence can affect the BE positively.	They refuse to be compared with other Chinese brands.
<b><u>RESPONDENT 5</u> Years of Experience 38</b>	Of course the imitation association is diminishing giving a better	The JVs added much to the brand. And the Chinese will own the electric car	Of course their strategy of high volume and spread supported their brand	If they manage to address the middle class and higher segment their perceived value will

	opportunity for innovation to catch up, and this is affecting the BE positively.	category.	awareness in a way.	change positively.
<b><u>ACADEMIC</u></b>				
<b><u>RESPONDENT 1</u></b> <b>Years of Experience 30</b>	Now you can see a brand personality for Chinese cars and this is the first step to build strong BE.	The JVs supported Chinese brands and sent a message that they can play big and deliver on a higher level.	I don't see the geographical presence in itself adding to BE.	The brand perceived value will change if they manage to build strong BE through building their brand identities and brand image.
<b><u>RESPONDENT 2</u></b> <b>Years of Experience 7</b>	Consistent product quality will help shorten time.	London Taxicab is a proof of claim Chinese can meet high standards of quality.	Geographical presence is preceding to product quality.	The growing middle class segment within China will enforce them to push the envelope towards a higher end consumer and this in return affect the perceived value positively.
<b><u>MARKETING PRACTITIONERS</u></b>				
<b><u>RESPONDENT 1</u></b> <b>Years of Experience 15</b>	Product is one of the most important touch points for brand development. If the product development consistently delivers the brand promise, brand equity will accumulate to a brand, thus benefiting the sales and brand premium.	Joint ventures with a famous brand, such as Chery with LandRover, communicate the message that the Chinese brand actually has the capability to deliver high quality premium brands.	Geographical presence is a merely a way of creating brand awareness.	On one hand, Chinese brands are inviting more and more famous car designers to join to upgrade their own car brands. On the other hand, they are addressing a higher segment. This should add to their BE.

Table 5.9: Example of Data Organization & Display

## 9. Questions, Propositions & Themes

From the research questions, the researcher can deduce three main propositions based on the research questions and the themes developed.

Questions	Propositions	Themes
What is the impact of Chinese Country of Origin on brand equity?	Chinese COO is no longer an obstacle to building strong brand equity	COO & Brand Equity Marketing & Branding
How is product quality supporting the brand equity of Chinese brands?	Product quality is positively affecting the brand equity of Chinese brands	Product Quality Technology Innovation & Safety Hybrid and Green Vehicles
How is geographical presence supporting the brand equity of Chinese brands?	Geographical presence is positively affecting the brand equity of Chinese brands	Expansion & International Presence Acquisitions & Openness to International Markets
How are joint ventures and co-branding supporting the brand equity of Chinese brands?	Joint ventures and co-branding are positively affecting the brand equity of Chinese brands	Joint Ventures & Co-Branding
Is the perceived value of Chinese brands supporting the brand equity of Chinese brands?	Perceived value is positively affecting the brand equity of Chinese brands	Segmentation & Positioning Perceived Value of Branding

**Table 5.10: Questions, Propositions & Themes**

## **PART V: PRE-CODED ANALYSIS FOR RELIABILITY PURPOSES**

Following the researcher analysis, and for the purpose of reliability, this section was developed. This section was developed by an external researcher to fulfil the objective of triangulation. A pre-coded database was developed including all relevant sources for each question, and the external researcher conducted an in depth analysis for the three accepted questions as a means of reliability for the questions under study.

Each question will be presented separately in the following sequence;

- What is the impact of Chinese Country of Origin on brand equity?
- How is product quality supporting the brand equity of Chinese brands?
- How are joint ventures and co-branding supporting the brand equity of Chinese brands?

## **Question 1: What is the impact of Chinese Country of Origin on brand equity?**

### **1.1 Introduction**

With the current level of global integration one has to be very specific in defining the Country of Origin (COO). We find that a brand could be designed in one country, produced in another and assembled in a third.

Most of the literature on COO since Schooler's [1965] seminal article in the *Journal of Marketing Research* ("Product Bias in the Central American Common Market") concludes that COO somehow has an effect on the perception of consumers.

With brands growing beyond the boundaries of their countries, some questions arise: Do consumers still use country stereotypes to evaluate products? Or is it true that brand equity can be more important than COO when making purchase decisions? Can Chinese brands overcome the negative implications by the "Made in China" label?

We will see together that with the evolution of the concept of brand equity consumers are becoming more and more interested in what the brand has to offer. As the brand equity rises the value of the "Made in... label" falls.

In the following sections, we will first take a look at previous literature on the effect of COO on consumer perception and COO effect controversy. Consequently we will discuss how brand equity acts as a moderator to COO effect and briefly review some examples of Chinese brands. The above will be presented under two themes; the effect of country of origin, and the brand equity and country of origin.

### **1.2 Theme 1: Effect of Country of Origin**

#### **1.2.1 Previous Literature**

The concept of Country of Origin has been widely researched during the last few decades. From these studies, marketers and consumer behavior researchers generally accept that a product's or



brand's country-of-origin is an important influencing factor in consumer decision-making (Khachaturian and Morganosky, 1990; Knight, 1999; Piron, 2000)

Many consumers use Country-Of-Origin stereotypes to evaluate products for example, "Japanese electronics are reliable", "German cars are excellent", "Italian pizza is superb". Many consumers believe that a "Made in . . ." label means a product is "superior" or "inferior" depending on their perception of the country. Chao (1993) believes that consumers may rely on previous knowledge to compute quality for a product designed or manufactured in Japan, for example, versus the US or other countries.

In COO research, it's important to divide the COO construct into three separate components - *Country of Design* (COD), *Country of Assembly* (COA) and *Country of Parts* (COP) (Insch/McBride 1998).

COD is the country where the product was conceived and engineered. COA is the country where the majority of the product's final assembly took place, and *Country of Parts* COP represents the country where the majority of the materials used in the product come from and/or the component parts are made (Insch/McBride 1998).

Chao's (1993) study reported that COD and COA influenced consumers' perceptions of product quality. The country of assembly did not directly influence the country of design ratings. Therefore, the country of assembly is not expected to influence the design quality of a product.

Han (1989) posited that the COO of a product could serve as a stereotype measure or surrogate for other product attributes for individuals unfamiliar with it or the product category. For individuals familiar with the product or product category (e.g., experts), Han (1989) posited that COO could serve as a summary construct that reduces the amount of information processing required in making a decision.

Bilkey and Nes (1982) concluded that "all of the studies reviewed indicate that COO does indeed influence buyers' perceptions" (p. 94)

### **1.2.2 Country of Origin Effect Controversy**

As mentioned, most of the COO studies indicate that COO has some sort of effect on consumer perception and purchase decision; however the extent of this effect is very controversial.

After their review of literature, Obermiller and Spangenberg (1989, p. 484) wrote that "no firm conclusions can be drawn on the pervasiveness or the strength of COO global effects." Similarly, Ozsomer and Cavusgil (1991), in an update of the Bilkey and Nes article, concluded that "most of the recent COO studies provide us with little generalizable knowledge"(p. 274).

Johansson *et al.* (1985) developed a multi -cue method for examining the impact of COO on product evaluation. The findings of the study indicated that COO effects were relatively minor when a multi-attribute approach was used. Johansson *et al.*, (1985) concluded that "COO effects may be less significant than has generally been believed, and they may occur predominantly in relation to evaluation of specific attributes rather than over all evaluations" (Johansson *et al.* 1985, p. 395). Thus, their findings supported the concept that the COO is used as a surrogate variable to evaluate a product when respondents have limited knowledge about that product.

In Ettenson, et al. (1988) conjoint analysis for examining the effect of COO in relation to a "made in the USA" campaign, it was found that the effect of COO is relatively small before and after launching the campaign. These findings indicate that product cues (price and quality) may have stronger effect on consumer product evaluations than COO.

From an information perspective, products may be conceived as consisting of an array of information cues, both intrinsic (taste, design, fit, colour) and extrinsic (price, brand name, warranty). (Bilkey and Nes, 1982)

Several studies, referred to in Olson and Jacoby (1972), conclude that intrinsic cues have greater effect on quality judgments than do extrinsic cues. Therefore, COO (an extrinsic cue) might have only limited influence on product quality perceptions (Bilkey and Nes, 1982; Thakor and Kastanis, 1997).

Studies that have been conducted in the last decade indicate that there's a paradigm shift in the effect of COO. Most of these studies indicate that other extrinsic as well as intrinsic cues of the product can act as moderators to the COO effect.

### **1.3 Chinese Country of Origin is no Longer an Obstacle to Build Strong Brand Equity**

#### **1.3.1 Theme 2: Country of Origin and Brand Equity**

In 1984, Erickson, et al. (1984) analysed the COO effects on the evaluation of automobile brands. The empirical results indicated that COO affects beliefs but not attitudes. The authors argued that the study demonstrated that image variables also affect beliefs through inferences made by consumers: "It also indicated that the effect of image variables on attitude was not direct; any influence they have appeared to be a secondary one acting through beliefs" (Erickson, *et al.*, 1984).

The 1989 Marketing Science Institute defines brand equity as the value that is added by the name and rewarded in the market with better profit margins or market shares. It can be viewed by customers and channel members as both a financial asset and as a set of favorable associations and behaviors.

Brand equity consists of four dimensions as suggested by Aaker (1991) that is, brand loyalty, brand awareness, perceived quality, and brand associations.

Previous research shows that brand equity directly affects brand preference and purchase intention.

Lin and Kao (2004) found the magnitude of the COO effect on 'brand equity' was moderated by numerous product-based variables including product familiarity, product importance, and product complexity.

A review of studies examining possible moderators of COO's effect on product evaluations indicate that brand and price are two of the most important cues moderating the COO effect.

Brand image can act as a protective shield against the effects of negative COO evaluations according to Jo, Nakamoto, and Nelson (2003). Specifically, brands with initial higher quality images were susceptible to a smaller degree of quality "discounting" (negative changes in quality perceptions) even when associated with countries having a reputation for lower quality or more negative COO evaluations than those having lower initial quality images.

### **1.3.2 Chinese Companies That have Created Brand Equity**

Brands such as Lenovo and Haier enjoy high brand awareness and are considered to be ambassadors of Chinese brands in the global market "(Made in China 2008, 2008)". This implies that such brands may eventually change the perception of consumers for brands "Made in China". Mr. Serge Dumont, Vice Chairman, Omnicom, pointed out that "brands have already become the new engine of growth for Chinese enterprises. Our 40 Omnicom-owned agencies operating in China represent every major marketing and communications disciplines," said Dumont. "They are committed to developing Chinese talent to be best in class and help clients create, manage and communicate their reputations and continuously increase the value of their brands – in China and around the world." "(Creating and Managing Brand Value, 2011)".

As discussed before brand equity has been found to moderate the COO effect. According to Interbrand's 2011 ranking, the brand value of outstanding enterprises is on the rise as China's economy continues to grow. This indicates that these brands will be able to offset the negative implications of China's COO.

#### **1.4 Conclusion**

COO effect on consumer perception and purchase decision does exist. The extent of this effect is controversial; however the majority of recent studies indicates that information about products in general, and brand equity in particular moderates the effect of COO.

As China's economy continues to grow, Chinese Country of origin is no longer an obstacle to build strong brand equity.

## **Question 2: How is product quality supporting the brand equity of Chinese brands?**

### **1.1 Introduction**

The adoption of the low cost strategy has served China well during the past few decades allowing China to play a major role in the global market. Rising competition from countries adopting the same strategy as well as the increase in the cost of raw materials and labor represented major challenges for the sustainability of this strategy. China has now changed focus to a new point of differentiation; Product Quality.

Taking the automotive industry for an illustration we find that China plans to become a leader in the new-energy vehicle sector in the next 10 years, with government funding of 100 billion yuan. By 2020, it aims to have annual sales of 5 million new -energy vehicles.

The flow of this section will go as follows:

- We will first take a quick look at China's automotive market in general under the theme Industry structure.
- We will then move to explore 2 brands that have managed to develop their products in a way that endorsed their brand equity both domestically and globally under the theme product quality and brand equity.

### **1.5 China's Automotive Market**

#### **1.5.1 Theme 1: Industry Structure**

China's automotive market is the biggest in the world. For the first half of 2009, China has surpassed the US in automotive sales, posting sales of 6.1 million units versus 4.8 million vehicles sold in the U.S. market. Looking at the trend over the past several years, we find that the strength in the auto global industry is shifting to countries like India and China. One of the main factors driving this success is the support of the Chinese government to the auto industry. The China government launched the Automotive Industry Revitalization Plan in March 2009. As a result of this plan the sales

of vehicles increased. The policy also encouraged consumers to use more fuel efficient cars to reduce fuel consumption, stimulating demand. On the supply side the government has adopted a plan to support the development of New Energy Vehicles.

## **1.6 Successful Chinese Brands Penetrate the US Auto Markets**

### **1.6.1 Product Quality and Brand Equity**

For the first time in its 101-year history, the 2008 North America International Auto Show (NAIAS) is adding five Chinese OEMs as exhibitors in January 2008. A total of 20 cars, SUVs and pickups “Made in China” were on display. Changfeng Group will return to Detroit for the second year after their debut in January 2007. GEELY International Corp., a subsidiary of GEELY Holding and the first Chinese automaker that exhibited in Detroit in 2006, is returning for a second appearance. BYD Automobile Co., Ltd., China America Cooperative Automotive, Inc. (Chamco Auto, U.S. partner of Zhongxing Automobile) and Li Shi Guang Ming. (China Automotive Magazine, p.20).

### **1.3.2 BYD**

BYD started off as a manufacturer of batteries, nickel-cadmium batteries, in 1995. In 1997 they started investigating new technology to produce lithium-ion batteries. BYD managed to change the manufacturing process of an industry that was capital intensive to become more labor intensive. They capitalized on the competitive edge of the low cost of Chinese labor to change the manufacturing process. Lack of access to plants of Japanese competitors that were leaders in the industry required re-inventing the batteries. Thorough research and development of the product as well as the process were utilized. In fact this was to their advantage as they were able to produce the batteries at a much lower cost than their Japanese competitors with deficiency rates a little less than 1% very close to capital intensive production processes implemented by the Japanese. BYD adopted quality control measures and provided discipline training to workers to reduce variability resulting from human factor. By 2002, BYD became the largest supplier of rechargeable batteries in China and the 4<sup>th</sup>

globally. Compared to most of the competitors in the local market (around 200 companies) BYD invested intensely in R&D. BYD took steps towards vertical integration. With the exception of the main board, BYD was capable of developing its production capacity to produce all the components of wireless handheld and to provide OEM's with a single solution for the outsourced manufacturing of their product.

In 2002, the opportunity of buying Qinchuan Auto, a state owned enterprise, presented itself. As challenging as it seemed, there were so many opportunities for BYD;

Assets of the state-owned enterprise were sold cheaply. The government didn't grant any further permits for automotive companies, although there seemed to be a huge opportunity in that field. Demand in 2002 was around 1 million passenger vehicles expected to reach 6 million by 2010. This also represented a chance for BYD to develop an electric vehicle using lithium ion battery technology. Finally BYD could capitalize on the deep capabilities in process engineering learned throughout the years in the battery industry to automotive production.

Since tapping into the automobile business in 2003, by leveraging on its superior value for money and international quality products, the Group has achieved remarkable growth in automobile business and ranked among top ten manufacturers of passenger cars and top three manufacturers of domestic-brand passenger cars in China in 2011, according to the China Association of Automobile Manufactures. During 2011, the Group persisted in technology and quality as its development focus, enhanced the general quality and performance of existing models, and introduced the 2 new models (G6 and S6) all with excellent market performance. The two new models not only proved BYD's outstanding R & D strength, but also became a new bright spot for BYD automotive business and opportunities for growth. "(BYD annual report, 2011)"

In February 2011, the joint venture of the Group and Daimler AG was formally established for the joint research and development of a new electric car.



BYD are known for constantly developing products to adapt to market changes and needs; the launch of the new energy business, developing products for smart phones, mobile internet, tablet PCs in response to the increasing market of smart phones. They are also developing the battery business to use them in new products including electric vehicles and energy storage stations.

The principal activities of the Group are research, development, manufacture and sale of rechargeable batteries, handset components and assembly service as well as automobiles and related products. “(BYD annual report, 2011)”. Successful 21<sup>st</sup> century companies will be the ones that can quickly adapt to the reality of globalization “(China next revolution, 2009)”. BYD is a company, a brand, certainly working towards achieving this goal.

In 2010, BYD opened its new headquarters in Los Angeles. Although operation and sales still haven't started, one opinion goes that this move was mainly to build a stronger brand image in China than gain market share in the US auto industry.

### **1.3.3 GEELY**

In 2002, when BYD were considering entry into the automotive industry, state owned auto manufacturers without foreign partners accounted for 25% of autos sold. Poorly capitalized SOE's were doomed to failure. The future was bright for the large SOE's and private companies that could raise the capital required to compete, but only two of these – GEELY and Chery – sold over 40,000 units per year by 2002.

In January 2006 GEELY became the first Chinese automaker to exhibit at North America International Auto Show. GEELY displayed one model, Freedom Cruiser, during the show. The model was unable to meet the US standards and exporting to the US was postponed. Instead an European and North American Industrial Park was set up to focus on R&D of cars to be sold in developed markets.

In 2011, management focus changed from product line management to product brand management.

General consumer perception over the Group's product brands and vehicles has continued to improve over the past few years, after major investment and effort by the Group in enhancing product quality and after sales services. "(GEELY annual report, 2011)" The Group conducts its business in China under three independent brand divisions: "GLEagle", "Emgrand" and "Englon", all of which equipped with their own management teams, production facilities and distribution network. In the exports markets, the Group still markets its products under the "GEELY" brand. With the full employment of platform strategy in the Group's new product development since 2008, and the substantial investment in the past few years in the upgrading of the production facilities, quality control system and supplier base, the Group's new models planned for 2012 are expected to demonstrate significant improvement in their design, quality and safety. The Group's exports performance continued to improve in 2011, and the first 2 months of 2012. This, together with the major effort to restructure the Group's export channels and to open up new markets, should bode well for continued strong growth in the Group's export volume in 2012. At the end of 2011, the Group is investing heavily in sophisticated technologies like automatic transmissions. The commencement of production of automatic transmissions at the plant in Xiangtan at the end of 2011 has enabled the Group to offer more sedan models equipped with automatic transmissions in the near future.

*"With the successful completion of the initial phase of our "Strategic Transformation" and the substantial investment in new products and technologies over the past few years, I firmly believe that the Group is well positioned to achieve its long-term target of becoming a leading international automobile group with reputation and integrity, winning respects from its customers."* Li Shu Fu Chairman. "(GEELY annual report, 2011)"

#### **1.4 Conclusion**

China is changing its focus from low cost strategy to product quality and development. The automotive industry in China is a perfect illustration. Brands such as BYD and GEELY have

successfully proven that focusing on product quality is positively affecting the brand equity of such brands domestically and globally.

### **Question 3: How are joint ventures and co-branding supporting the brand equity of Chinese brands?**

#### **1.1 Introduction**

Competition in the Chinese market is so fierce. Almost all players adopt the strategy of cost plus pricing pushing profit margins very low. Successful brands in the Chinese market realize the need to expand internationally to be able to survive. There are lots of challenges faced by Chinese brands including, but not limited to, lack of innovation, inability to maintain quality standards, weak branding, and the negative image associations of the “Made in China” label. Some of the Chinese brands realized the potential in co-branding and building joint ventures with global partners to achieve their goal. The Chinese brands can then capitalize on the brands of international partners to endorse their brands, while having access to their international partner’s know-how and expertise.

To international partners such agreements represent a chance to expand in the rapidly growing emerging markets. The two cases of GEELY and BYD will be explored for illustration within the automotive industry. In the next few pages we will take a look at three main themes; First, China as a global player, Second, we will consider dominant growth strategies, and third, Brand Equity and Joint Ventures where we will discuss how joint ventures and co-branding are positively affecting the brand equity of Chinese brands while examining the two cases under study.

#### **1.2 Theme 1: China as a Global Player**

China plays a substantial role in the global market; however there are certain issues that China needs to address to continue playing that role. China has a mindset on trading rather than brand building. Efficiency and effectiveness are embedded in the Chinese culture rather than building a strong promise and investing to fulfill this promise. More focus on innovation rather than copying competitors is very important particularly with a lot of Chinese companies accused of breaching intellectual property rights. Moreover, there is the negative implication of “Made in China”

previously discussed in the Country of Origin section. Despite these challenges and more, some Chinese brands have managed to develop strong brand equity. Some have adopted growth strategies to expand their business whether on the domestic level or the global level.

### **1.3 Theme 2: Dominant Growth Strategies**

#### **1.3.1 Mergers**

A merger is the process in which two companies become one by coming together. In such a case, no one company rules over the other. Usually the management of both companies shares the control of the resultant company and names of both companies are retained for the resulting companies.

#### **1.3.2 Acquisitions**

Acquisitions refer to processes in which one company buys the other company. In such a situation the buying company absorbs the bought company into the existing company. Acquisitions can be carried out either to eliminate competition by absorbing the competing company or to expand the corporate portfolio by retaining the acquired company as an independent entity under the overall corporate management.

#### **1.3.3 Alliances and Joint Ventures**

An alliance is an approach in which two or more companies agree to pool their resources together to form a combined force in the marketplace. Each participant in the alliance retains their individual entity but choose to compete against competitors as a unified business force. In terms of branding, both brands are maintained. Joint Venture (JV) is a very popular form of an alliance. One main advantage of JV's for companies entering markets is that they benefit from the local knowledge of the local company. The obvious disadvantage is that companies entering new markets may be taken for a ride if joint ventures are not agreed upon carefully. Alliances are less risky than acquisitions because they are negotiable, co-operative and easier to walk away from. They bring two firms together with mutual interests but different strengths to work on particular projects that offer benefit to both.

## **1.4 Joint Ventures and Co-Branding are Positively Affecting the Brand Equity of Chinese Brands**

### **1.4.1 Theme Three: Brand Equity and Joint Ventures**

As a result of the economic downturn and saturation of the developed markets, several of the global brands realized the potential in the emerging markets of East Asia, particularly China; however the culture and the markets are substantially different from those of mature markets. On the other hand competition in Chinese markets has become so fierce, particularly since it is still massively based on price wars. Successful Chinese brands have realized the importance of going international as a means to expand and, in some cases survive. We therefore see an increasing number of Mergers & Acquisitions, Joint Ventures and Partnerships between international and Chinese brands.

In addition, the Chinese government adopted foreign capital investment policy and the First Automobile Industry Policy in 1994 which encouraged foreign manufacturers to form JV's with domestic automakers to facilitate the transfer of technology and management expertise to the local industry.

In 2006, Chrysler chose Chery as a partner to build a small car for the North American and European markets. Chrysler was the only car maker in the global top ten absent from the small car segment. Chrysler believed that Chery was the best partner to provide the vehicle Chrysler needed at the level of quality and price consumers would be willing to pay, while making a profit. To Chery, this deal provided a drive for Chery to further develop and become a global car maker. By 2011 Chery had been top Chinese vehicle exporter for 9 consecutive years.

Another example is FAW (formerly First Automobile Works). FAW began its first collaboration effort with foreign automotive giants by signing a pilot engineering agreement with Volkswagen AG that involved the import and joint assembly of 30,000 Audi 100 CKD kits in China. Two years later in 1990, FAW signed a joint venture contract with Volkswagen to jointly produce the Volkswagen Jetta A2 sedan. Since then the company had formed various joint ventures with other global

automotive giants to produce a wide range of world-famous brands of passenger cars such as Mazda, Daihatsu and Toyota. These partnerships allowed FAW to expand its exports into the global market. In October 2002, Hyundai Motor Company entered into a 50:50 joint venture with Beijing Automotive Investment Company (BAIC) forming the Beijing Hyundai Motor Corporation (BHMC). Kia Motors established its foothold in China in 1998, when the first Chinese plant was built in Shanghai under a joint venture with the Yue Da Group in Nanjing, China. It might seem that all of the above were mainly driven by the foreign partner to benefit from China growing market and would add little to the Chinese partner, but let's take a closer more detailed look on two Chinese brands that have formed joint ventures with international partners and have added significantly to their brand equity.

#### **1.4.2 GEELY**

In 2010, the automotive industry in China witnessed the acquisition of Swedish luxury car maker Volvo Car Corp by Zhejiang GEELY Holding Group, the first private owned automotive manufacturer. According to the agreement, GEELY promised no interference in Volvo's management. Volvo intended to produce cars in China in 2013 with focus on localizing the R&D, production and sales to serve China and other emerging markets in the region. Plants in Sweden and Belgium continued to serve the mature markets. The agreement offered GEELY an opportunity to integrate Volvo's patented technology, which also allowed GEELY to capitalize on Volvo's brand equity and association with luxury and safety. It was also a chance for the Chinese auto manufacturer to increase its presence in Europe and learn how to run a global supply chain. Moreover the agreement enabled GEELY to enter the premium auto market in China that has been dominated by foreign brands, to offer the first Chinese luxury car. With no doubt, targeting the premium auto market will help enhance the brand image of GEELY. The fact that Volvo, an international brand known for its luxury and safe cars, was fully acquired by GEELY facilitates the penetration of the

premium market as well as increases the perceived quality of GEELY brand that was previously known as a manufacturer of affordable cars.

For Volvo, it was a chance to spread in the biggest automotive market in the world. The agreement also offered Volvo a chance to return to profitability.

Michael Dunne, an independent auto analyst based in Bangkok, said that acquiring a well-known brand was the fastest way for a company like GEELY Auto to move up from making affordable cars for the masses to building respected cars for the affluent (New York Times, March, 2010).

“It will help GEELY’s brand, that’s for sure,” Mr. Zhang, the director of greater China vehicle forecasts for CSM Worldwide, an international consulting firm, said. The challenges and the risks are equal to the opportunity.” (New York Times, March, 2010).

It is worth noting that the amount of press coverage received by this agreement whether before during or after the agreement was signed serves the purpose of increasing GEELY’s brand awareness on the international level.

However there were some key challenges and counter arguments defending the success of the deal.

On one hand there was GEELY’s lack of management skills to integrate Volvo since GEELY was 6 times smaller than Volvo. On another hand, GEELY lacks global exposure, with most of GEELY’s exports focused on developing countries. Moreover, there was lack of synergy between both companies. GEELY offered low cost cars through a low end producer while Volvo offered premium brand and sophisticated technology. Volvo’s core focus was safety while GEELY focused more on efficiency and being environmentally friendly. GEELY wanted to rapidly expand in the short term, while Volvo was more concerned about their core concept, which is safety, and were willing to dedicate more time for innovation. Finally GEELY says it will allow Volvo to retain its independence; however founder Li Shufu is very aggressive. GEELY had a lot of work to do to overcome these challenges.



In spite of all the above, it is beyond doubts that from a branding perspective, GEELY gained a lot of brand awareness with the sign off of this agreement. For a Chinese brand to fully acquire a Swedish brand is a strong start up for a Chinese brand seeking to shift strategically into building their brand. In addition, this is a significant move to put forward the GEELY brand and buy time to accelerate the buildup of its brand equity.

The GEELY-Volvo agreement was not the first partnership that GEELY took to endorse its brand with international partners. GEELY had signed an agreement with British cab maker Manganese Bronze Holdings Plc to produce London TAXI Cab. This meant a lot for GEELY for a British brand to entrust a Chinese manufacturer with its brand. Knowing that the quality standards of a British brand will be very high, such a partnership again serves the perceived quality of GEELY and of course overall brand equity.

### **1.4.3 BYD**

Denza, the brand of the 1<sup>st</sup> pure electric car produced in China is a result of the 50-50 joint venture between German automaker Daimler AG and Chinese battery and car producer BYD. The car was officially launched in 2013. This joint venture is expected to capitalize on the strengths of both companies; BYD's experience in battery technology and e-drive systems and Daimler's capability of design of premium autos, know-how in electric vehicles, architecture and safety and more than 125 years of experience in automotive excellence. Denza is expected to be a leader in the green vehicle market in China.

BYD started off as a manufacturer of batteries in 1995. One of the main competencies of BYD is their focus on innovation. In 1997 they started investigating new technology to produce lithium ion batteries. They were able to re-invent the process of production using a more labor intensive process compared to the capital intensive processes adopted by their Japanese competitors. BYD's interest in developing New Energy Vehicles is founded on their competency, innovation. With rising

international focus on energy saving and environmental conscientiousness, BYD's development of Denza further supports its positioning and allows it to take a frog leap into the future.

Prior to that agreement BYD had been facing some challenges. On the global level, particularly in the US, BYD had been accused of copying the designs of other competitors. There had also been a lot of rumors about the safety measures of BYD cars and whether they will ever make it to the US market. Moreover, 2011 had been a very challenging year for BYD with weaker than expected sales reducing profits by nearly 86%. For BYD the joint venture represented a huge opportunity to capitalize on Daimler's brand equity, know-how and expertise to endorse their brand and clear off any negative associations with BYD brand. The manufacture of a New Energy Vehicle will positively affect the corporate brand image and association of BYD.

For Daimler, the joint venture presented itself as an opportunity "to participate in the potential growth of electric mobility in China, the largest car market of the world. Electric vehicles are especially well suited for urban driving. With its many metropolitan areas, China has the potential to be among the world's largest markets for zero-emission vehicles" according to Daimler boss Zetsche.

### **1.5 Conclusion**

Chinese brands are under pressure to grow internationally; however the challenges are huge to be faced alone. Joint Ventures and Co-Branding presented an enormous opportunity for Chinese brands to endorse their brand equity capitalizing on the equity of international partners; thereby we conclude that Joint Ventures and Co-Branding are positively affecting the brand equity of Chinese brands.

## **CHAPTER SIX: DISCUSSION**

### **6.1 Introduction**

By 2030, roughly two thirds of the world's middle class will be in the Asia Pacific region, largely in China, according to a report by Ernst & Young “(Hitting the sweet spot, 2013)”. Currently at around 150 million people, the Chinese middle class is expected to reach 1 billion. This has paved the way for iconic brands and new brands to become part of an array of enormous opportunities in China. But what about Chinese brands? Will Chinese benefit from such an opportunity by strategically shifting their focus and building their domestic brands in order to compete? Can they find a way to position themselves in the US\$250 billion market of iconic American brands?

The purpose of this qualitative case-study is to examine the antecedents of brand equity of Chinese brands. The researcher investigated how the Chinese are creating their brands by examining two growing Chinese automotive brands: GEELY and BYD.

The following section will discuss the antecedents of Chinese brand equity. In order to explore the research questions and achieve the research objectives, the researcher has used the case-study research type. This is because it enables the researcher to extensively describe the case of Chinese brand creation and analyze it comprehensively.

The study explores the relationships between selected marketing mix elements as brand differentiators along with the country of origin and their impact on Chinese brand equity. As per Yin (2009), a case-study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. Since Chinese brands are evolving, and since there is currently no clear line to

articulate this new shift in Chinese brands, the case-study analysis will be used to investigate and explain the how and why of the brand building phenomena.

## **6.2 Chinese Brand Building**

The findings of the research and the case studies revealed that though there is still controversy about the success of the Chinese brand building journey, there is no doubt that strenuous attempts at brand building demonstrate a strategic paradigm shift in the way Chinese organizations regard their brands, and are treating them as a competitive advantage and an unforgotten intangible asset.

A major contribution to branding theory was made by Kevin Keller (1993) in his definition of customer-based brand equity as “the differential effect of brand knowledge on consumer response to the marketing of the brand”. Consequently, all marketing efforts (product, price, distribution, and communication) supports in building knowledge about the brand and its brand equity.

A basic principle of brand equity is that the power of a brand rests in the minds of consumers, their experience, and what they have learned about the brand over time. Brand equity is the added value brought to a product in the thoughts, words, and actions of consumers.

Interestingly, the concept of branding is not new to Asian consumers. Branding as a reflection of the quality of a product’s craftsmanship arguably occurred earlier in Asia than in the West. In Imperial Chinese tombs and temples, built more than 2,000 years ago, manufacturers and workers left brands in the form of identification marks in the bricks they made, so that the court could trace their origin and hold them accountable in case of any faults. Branding to communicate position, power, and influence can also be seen in the clothing culture of Asian antiquity, such as the uniforms of soldiers and guards. Recent literature is investigating a new paradigm shift in the way Chinese regard their brands. For a long time Chinese brands depended on government policies and regulations to stimulate profit and protect their market share from competition. Today, the market is changing. The government is deregulating many policies, consumers are looking for differentiated products, and the

Chinese middle class, soon expected to reach 1 billion, is searching for originality rather than copycat brands. With the exponential growth of Chinese purchasing power, Chinese brands can take up a new position, building barriers to entry by investing in R&D and building brand equity. These Chinese brands should have a vision of the future focusing on Chinese culture and creating lifestyle brand symbols. Those enterprises that rely on their scale and heritage alone will not survive for long, but one of the best ways of surviving is to turn these attributes into brand equity.

The Managing Director of GEELY, Egypt, said that the Chinese are successfully building powerful brands; and that the increasing use of terms like quality, product branding, perceived quality, and innovation demonstrate a marked shift in company policy.

The evolution of Chinese brand building brings to mind Michael Porter's book "The Competitive Advantage of Nations" (1990). In it he says that national prosperity is not innate, but is created. He states that a nation's competitiveness depends on its industry to innovate and upgrade. Competitive advantage is created and maintained through a highly localized process.

### **6.3 Learning from the Japanese Experience**

The Japanese experience reveals that a company must consider a global approach by marketing its own brand and controlling its own marketing channels internationally. The Japanese concept also embeds the meaning of continuous improvement. The Japanese decided to regard their advantage as obsolete before it became so, compelling themselves to innovate and build a stronger advantage before others could force them to do so. The Japanese became innovators in process technology and just-in-time production, which by its nature led to better product quality and higher customer satisfaction. This by turn placed Japanese brands at the forefront of product technology and paved the way for introducing premium brands competing with the most prestigious passenger cars. Chinese are learning very fast and are working very hard; they have been the reference for productivity and are

now exploring innovation to assume competitive advantage. It is where brand building would seem inevitable for growth and sustainability.

The number of registered cars, buses, vans, and trucks on the road in China is expected to exceed 200 million by 2020. The consultancy McKinsey & Company estimates that China's car market will grow tenfold between 2005 and 2030. In the past, carmakers such as the Shanghai Automotive Industry Corporation (SAIC), First Automobile Works (FAW), and Dongfeng Motor depended solely on joint ventures with foreign OEMs to manufacture automobiles. At present, these companies have joined Brilliance Auto, Chery, GEELY, and other local players in either launching or announcing plans to make branded vehicles. “(A global road map for China’s automakers, 2008)”

#### **6.4 Following Lenovo Model**

As an example of successful Chinese brands, Lenovo is regarded as the brand that is putting China on the right track towards global branding. Lenovo’s merger with IBM’s PC business and its sponsorship of the 2008 Olympics led to global brand awareness. The brand association of IBM added immediately to Lenovo brand’s perceived quality and brand’s positive association of quality and trust and consequently added to Lenovo brand equity. The same happened with the GEELY brand when they acquired Volvo, the Volvo brand immediately added to GEELY’s brand perceived quality, and brand association, in addition to the brand awareness that was established the least due to the coverage the GEELY brand has gained.

The GEELY brand was nominated by Interbrand as a prominent brand with potential for a brand valuation ranking. GEELY is making breakthroughs within the automotive industry and is steadily reaching out to the global market. In an Interbrand survey of over 700 business and marketing professionals around the world, GEELY was seen as a viable ambassador for China, and was ranked 49 among the best 50 brands in 2010, with a brand value of 1.20 billion RMB. “(Made in China,

2007)” GEELY started with low-end products, yet has started approaching new ones and revamping its product portfolio and branding strategy. As announced in its corporate strategy in 2011, the company is planning to adopt a global strategy and to become one of the World Top 500 enterprises through innovation and brand image building.

GEELY’s purchase of 100% of the equity of Volvo Group on August 2, 2010, marked a new stage in its global evolution and attracted attention all over the world. The acquisition greatly added to GEELY’s brand equity, demonstrating that a Chinese brand could acquire a Swedish brand renowned worldwide for its strong brand equity, positioning, R&D, and quality. The Volvo deal and its London Taxicab production are not only affecting the brand equity and emotional associations with the GEELY brand, they are also acting as a pushbutton for the Chinese brand to enter a new era of producing high-end brands, and consequently moving the brand to another segment with all its tangible and intangible needs. Though the Volvo acquisition and London Taxicab production are only two deals, yet their scale and impacts on the brand equity of GEELY is clear, and are dramatically moving the GEELY brand to a different level of brand perception, image, and associations.

The negative associations of poor quality, low safety, and cheapness are deeply rooted in the image of Chinese products. But new business models and open markets, plus investment in R&D, product quality and safety, and international joint ventures and alliances, are all positive steps towards achieving brand equity and overcoming the negative legacy of COO.

### **6.5 COO Diminishing Effect**

In the last 10 years a new shift of Chinese brands has become apparent, challenging the country-of-origin stigma by moving from low-quality, low-price products, and promoting the benefits of investing in brand building.

Decades of research have led to one conclusion that was seemingly beyond doubt: a product's country of origin does affect consumers' judgments of that product. Only recently has that conclusion started

to be questioned. Researchers are beginning to doubt the influence of COO information and its impact on quality perceptions and purchase intentions, as well as consumers' real level of knowledge concerning the origins of the brands they purchase. (Samiee, Shimp, and Sharma, 2005; Chen, 2004; Thakor and Lavack, 2003)

Although many variables have been studied regarding COO, according to Peterson and Jolibert (1995) two broad categories captured the majority of responses, with quality/reliability perceptions and purchase intentions being the most commonly investigated. Their investigation demonstrated that the effect sizes for quality/reliability perceptions have been consistently larger than effect sizes for purchase intentions, which substantiates other recent empirical research (e.g., Lim, Darley and Summers, 1994). Moreover, prior research – by Fishbein (1963) for example – suggests that typically the information cue effect is less influential than the direct evaluation and personal commitment involved in purchase intentions. We can deduce accordingly that the effect of the information cue of the country of origin and the Made in China if not present, consumer will then evaluate the product based on other attributes. Even with the presence of the COO information, consumers when involved in purchase give less weight to the country of origin information versus other cues.

The study conducted on industrial products by Sadrudin Ahmed et al. (1994) showed that country of design is a more important cue in organizational purchase decisions than country of assembly and brand name. It added that the greater importance attached to country of design by purchasing managers as compared to household buyers is another interesting difference. In previous household studies, country of design evinced the same weight as country of assembly. Additionally, the results showed that COO is an essential extrinsic cue used by purchasing managers, especially when judging the quality of a technologically complex product.

Chao (1998) confirms the conception that the impact of COO on Chinese brands is substantial, especially when we monitor the OEM strategy of many foreign automotive manufacturers to produce



their cars in China. The implications of the country of assembly, country of parts, and country of design is indeed very significant for foreign car manufacturers. The fact that foreign brands manufacturer in China affirm the notion that the country of assembly is not of much importance.

The trend of manufacturing and assembling in China started long ago. Today we are witnessing a new wave of joint ventures between Chinese car manufacturers and the world's top brands, such as Beijing Benz; Beijing Hyundai; Foton Daimler; Brilliance BMW; Shenzhen BYD Daimler New Technology Co. Ltd.; Chang'an Ford, and Chang'an-Mazda. These JVs not only benefit the leading brands through reducing costs and distributing risk, but also added real value to the equity of the Chinese automotive brands through association. This approach is enabling Chinese brands to leapfrog the negative effects on equity of the Made in China label.

Academic studies of COO indicate that a paradigm shift has occurred, dramatically changing the impact of COO on quality perceptions and purchase intentions.

Some studies propose that price and COO interact to affect consumers' product quality evaluations and that neither variable produces significant singular influence when presented with the other (Miyazaki, Grewal, and Goodstein, 2005). Others suggest that while price may directly affect purchase intentions COO does not – albeit COO can affect the same consumers' perceptions of product "value" (Hui and Zhou, 2002).

A paradigm shift in the structure of international markets and trade agreements has reduced the importance of COO. This has led researchers to conclude that the impact of COO is more likely to function through other variables rather than directly on purchase intentions.

According to Pecotich and Rosenthal (2001) study testing the immediate impact of ethnocentrism, brand name, product quality, and country of origin on purchase intentions, while there was a strong significant main effect due to product quality, the other effects were not significant. In particular, there was no evidence of a main effect on purchase intentions due to COO. This result supports the

notion that the COO effect is diminishing and produce little effect when it comes to purchase intentions and perceptions.

Finally, Lin and Kao (2004) found that the influence of COO operated not through product perceptions but through brand equity, which in turn had a strong direct effect on both product perceptions and purchase intentions, thus moderating the COO effect. The significant attention paid by the Chinese to building their brand equity is a key strategic imperative supporting the healthy growth of Chinese brands.

In summary: the above mentioned studies confirm Peterson and Jolibert's suspicions that COO evaluations have little or no direct impact on purchase intentions. Julie M. Pharr (2005) depicts the importance of brand-based constructs in moderating COO evaluations, showing that the influence of COO evaluations occurs through product evaluations, perceived product value, brand equity, or brand image, and not directly on purchase intentions. Pharr states: "If a majority of today's consumers are not using COO information as a decision diagnostic, it would appear that either past research has inflated the influence that country of origin has on consumers' product judgments and behaviour (by using experimentally manipulated COO cues in laboratory settings) or that the construct is subject to decreased salience in today's era of global brands." The establishment of Chinese global brands is inevitable. The above evidence makes it more likely that the Chinese negative association of COO will soon be part of a new era of studies and research affirming its diminishing role.

**The above discussion sheds light on a research proposition that Chinese Country of Origin is no longer an obstacle to building Chinese brand equity.**

## **6.6 The Antecedents of Brand Equity...A Move Forward**

The following section will discuss how brand differentiator factors act as antecedents of Chinese brand equity. Of the four questions related to brand differentiators, two were accepted: product quality, and joint ventures and co-branding. The two other questions – geographical presence

and perceived value – were rejected because GEELY and BYD have not yet developed significantly in these two areas.

Although there has been great interest in the concept of brand equity, little conceptual development or empirical research has studied what marketing activities most support the building of brand equity (Barwise, 1993). The researcher explored how these marketing elements are acting as antecedents of Chinese brand equity as a starting point to further research to investigate the linkage between marketing mix elements and brand equity.

**The researcher is suggesting a new proposition deduced from the original question that product quality strongly support the development of Chinese brand equity.**

As stated by Yoo, Donthu, & Lee (2000) any marketing action could affect brand equity since it signifies the effect of accumulated marketing investments in the brand. Specifically, consistent quality is a key to successful branding (Doyle, 1989). A variety of authors stress that the brand is a guarantee to the potential customer (de Chernatony, 1989; Low and Fullerton, 1994; Irons, 1996). One of the reasons Chinese brands are slow to acquire brand recognition and preference is due in part to the fluctuation in quality and the inconsistent quality attributes. In the late nineteenth and early twentieth centuries, consistent quality was an important brand determinant. However, by the late twentieth century, consumers had started to expect quality and took it for granted, with each consumer choosing a quality level to fit their needs and budget. Interestingly, the Chinese are strategically adopting this approach, meeting the needs and budgets of multiple segments rather than just depending on the low-price sensitive market.

Over all, the emergence of multinational brands in China put positive pressure on Chinese brands to invest in product development, business models, and consumer demands.

As stated in Interbrand's report "(Creating and managing brand value, 2011)": "Chinese brands are moving from following, copying, and learning from competition to creating their own path."

Both GEELY and BYD have integrated product quality as part of their new strategies and are changing the notion of Chinese poor and low quality. Both brands are also relating the attention to product quality to their strategic shift into brand management and developing strong brand equity.

Early GEELY models were generally copies of others. But recently, it has put great effort into developing technology in order to execute a major reshuffle of its brands, most importantly: GLEAGLE, EMGRAND, and ENGLON.

With their announced quality focus and their migration to multi-brand strategy, GEELY has made significant improvements in product quality, customer satisfaction, reliability and brand image.

In 2011, it achieved its overall quality control targets by reducing the amount of warranty claims per car and significantly lowering product defect rates “(Geely Annual Report, 2011)”. This is also supported by a “Global Times” report, which states that GEELY is shifting its focus to quality and steady growth, and moving from product line management to brand line management. Moreover, with the introduction of new product categories GEELY has placed the brand on a different positioning level and brand image level.

The attention of GEELY for instance to quality was apparent in the Emgrand EC7 model, that was launched with R&D activities in line with the tough ECE whole vehicle type approval regulations; Emgrand EC7 also developed its safety according to the requirements and standards of the E-NCAP four-star rating; GEELY purchased high quality components from prominent international suppliers; they have employed ABB robots for assembling and used stringent quality detection by Deurr inspection equipment. (Global Times, 2013) All of which resulted at the end in a high quality car model reflecting GEELY’s attention to product quality and understanding of its importance on their pursuit to brand building.

The breakthroughs of GEELY are also evident in the technology and innovations made in hybrid power technology. In addition, the GEELY Technology System took second place in the National

Scientific and Technological Progress Prize (the first place was vacant). GEELY is the only auto company ever to win it. (Global Times, 2011)

GEELY's attention to product quality was deduced from industry experts' interviews, as stated by the Deputy GM of one Chinese car distributors in Egypt who said that Chinese brands are currently significantly addressing product quality and that this relates to the impact of product quality on the perception of Chinese brand equity and image. He said that attention paid to safety elements – such as improvements in the Euro NCAP crash tests – is helping amazingly; adding that today no car can come out of China without five to six months of quality tests and quality control. It is apparent that Chinese recent attention to quality is not a coincidence; it is rather a well planned pursuit that would support as an antecedent of building strong brands.

Perceived quality, as defined by Zeithaml (1988) is “the consumer's subjective judgment about a product's overall excellence or superiority”. The Suranga, et al. (2012) study concluded that perceived quality is the most important factor in building brand equity.

Attention to product quality, safety, reliability, and quality assurance are all new measures the Chinese are currently addressing. This adds positively to the level of perceived quality, image and positive associations of a brand, and consequently to brand equity.

It is also important to highlight that the acquisition of Volvo is driving the growth of GEELY. Volvo is well known for its safety positioning, safety measures, and standard-leading innovation. Consequently, GEELY is being exposed to a wide pool of safety innovation standards which will support the improvement of the group's safety measures and consequently its perceived brand quality. GEELY's focus on improving product quality through various aspects – such as car crash tests; components procurement from well-known brands; attention to chassis thickness and durability; and improving quality control and quality assurance levels – is marking a new era for Chinese cars and is

a step towards globalization. It is significantly improving the strength of the brand and building new associations and image for GEELY specifically, as well as for Chinese auto makers in general.

When the Head of the Automotive Trade Association in Egypt said that Chinese will lead the world in the near future through product innovation and that they are currently addressing higher segments with relevant qualities and that very soon they will enforce their price point, he was asserting this new trend of attention to product quality and brand building.

The Managing Director of GEELY Egypt confirmed this notion of product innovation and proper attention to product quality. He said that when considering which Chinese brand to assemble in Egypt, GEELY had emerged as by far the best option. This was mainly due to the fact that GEELY is making breakthroughs by integrating the concept of quality into every aspect of the business, even the selection of human resources under the theme “QUALITY-GEELY”.

Many marketers and economists trust that there is a system of positive feedback and reinforcement between brand equity and R&D, and that both empower each other over time.

The output of this research is supporting the notion that the Chinese are dramatically shifting into product quality and innovation after a long period of negative associations with their poor product quality and their low investment in R&D.

When BYD launched the G6 it was an example of the company’s strong R&D capabilities and established its efficiency and integration innovation capabilities.

“Product is one of the most important touch points for brand development. If the product development consistently delivers the brand promise, the brand equity will be accumulated to the brand, thus benefiting the sales and brand premium,” commented a Strategy Director at Labbrand Enterprise Management Consulting at Shanghai.

BYD’s original business was always associated with research and development capacity and investment in technology. The group has brought its first-class IT and electronic equipment

manufacturing technology into the automotive business, making it a world-class auto manufacturing company, with a first rate R&D centre and over 500 patents every year.

The focus group consisting of marketing practitioners highlighted that probably the most important element of the marketing mix that would drive the development of Chinese brands is attention to product quality. This is because it would mitigate the negative connotations that directly come to mind regarding poor quality, and cheap Chinese products. However, this can only be achieved by bringing real innovation to the market. According to analysts, the S6 has been praised for its safety, quality workmanship, and a variety of high-tech features. Analysts presume that BYD is leaving its cheap, low-end status behind. In the last two years BYD have upgraded their process of car manufacturing and hired Japanese experts to improve the quality of their cars. All of the above indicate that BYD is moving up the ladder to address a new segment demanding higher quality products.

“The Chinese are now investing in the future of automobiles,” a marketing professor said. “Electric cars are not merely an investment in a new technology, the Chinese are investing in alternative energy and the electric car is the next generation.”

Industry analysts expect that BYD’s all-electric car will increase competitiveness not just for BYD but for the Chinese automotive industry as a whole.

BYD has leveraged its core competency in rechargeable batteries and entered a challenging industry to support its growth. Electric cars are riding the future wave of the green automotive business. When Warren Buffet – in the middle of the financial crisis – put \$232 million into BYD, the move elevated the brand awareness and the brand image of BYD through the positive associations with such icon.

The move into electric cars is a strategic step for both China and BYD. “China’s auto industry may have lagged behind the West for the past century, but we are now on a level playing field with international players when it comes to electric cars,” said a BYD representative in Shenzhen.

“Everyone is behind the same starting line when it comes down to this race. In fact, BYD might even be a little bit ahead given our expertise on batteries,” he added.

Product innovation reinforces and, in some cases, broadens brand meaning. (Berenson and Mohr-Jackson, 1994; Beverland, 2005; Christensen and Raynor, 2003; Crawford and Di Benedetto, 2003; Keller, 2003) it is beyond doubts that BYD’s fast strides into green technology and electric cars are a footstep into the development of a positive perceived quality and positive association that would elevate the equity of their brand.

For years, the investment of Chinese companies into R&D and product innovation was not part of their competitive strength or strategic intent. Today, a dramatic shift into product quality and innovation is driving the strategic thinking of many Chinese companies. The real opportunity remains with Chinese auto makers moving steadily into green technology. If the Chinese succeed in installing energy-efficient technology in every car it would dramatically elevate the brand equity of Chinese brands. In fact it would enable Chinese auto producers to dominate an innovative category within the industry that is still way under development. It would significantly support the position of Chinese brands as developers of the future of the automotive industry through green technology, and help them leapfrog into building powerful brand equity.

When Wenbo Cui (2011) studied the Chinese sports shoes market, he highlighted that perceived quality as well as brand loyalty has a significant effect on brand equity building. He stated that in the highly competitive market in China it is important to provide Chinese consumers with a positive or high perceived image of the brand. He also said that marketers should work on enhancing the perceived quality of a brand by offering high quality products and unique styles, with after sales services and a warranty to support the perception of high quality products. Furthermore, high perceived quality enables consumers to recognize the superiority of a brand, and facilitates the choice of a consumer to select the brand over competing brands. (Yoo et al., 2000)



In summary: the Chinese automotive industry has managed to strategically achieve presence and high brand awareness through low-cost, low price products. Today, the Chinese are strategically shifting gear by upgrading their quality and moving into green technology; adding new challenges and new attributes to the Chinese brand to reverse the negative associations and bring positive perceived quality and associations and consequently strong brand equity. It was always the Japanese and Korean persistence to higher and higher quality that helped them establish strong brand equity though their start up was flagged with low brand image and low brand equity.

**Moving to the third question,** geographical presence as a factor affecting brand equity is very problematic and confusing. Both GEELY and BYD efforts to expand geographically are still bound to meeting certain levels of safety and quality. For instance, the geographical expansion of Korean brands was limited initially to certain countries that did not necessarily regard safety and quality measures to be a prerequisite for importing. This explains the minimal effect of geographical expansion in the brand building of Asian brands. Korean auto makers only managed to break into the global market when their product quality and innovation had proved itself and achieved market acceptance.

Hyundai, for example, stepped into the US market, in the mid 1980s, with high volumes comparable to those of several smaller Chinese OEMs today. Its rapid start was held back by quality issues and other problems that damaged the company's reputation with the market and took several years to restore. "(A Global road map for China's automakers, 2008)"

Though industry experts agree that going global and entering the American or European markets, will give Chinese brands the original stamp of quality, they differ over whether they will have much of an impact on these markets.

For Asian automotive brands, it is clear that passage into the American market is the original stamp of authentication and approval. In early 1986, Hyundai introduced the Excel model to the American

market and its sales rose by 56%. It was the breakthrough for Korean passenger cars. Hyundai achieved a record, reaching the highest sales by an importer in its first full year of operation. That same year Mitsubishi's Precis model (a slightly modified Excel) was offered for sale by Hyundai in the US. Both Daewoo (a joint venture with GM) and Kia (assembling the Festiva for Ford) followed close behind Hyundai into the US market. In 1987, the total car exports of South Korea to the United States totalled 346,582; more than doubling the previous year's total. Sales continued to rise in 1988, and by the end of that year Hyundai became the fourth biggest exporter of cars to the US; behind Toyota, Nissan, and Honda, but ahead of such prominent firms as Volkswagen, Mazda, and Subaru. South Korea had become the first developing nation to obtain a substantial presence in the American import car market. (Andrew E. Green, 1992)

Achieving such a position had a real impact on the acceptance of Korean brands not only in the American market but in others as well, the high standards of quality and safety demanded in the US being well known around the world.

Building global brands directly relates to distribution and geographical presence. Importantly, to become a global brand producer, firms must recognize that branding strategy is an important source for sustainable competitive advantage. (Gordon, Calantone, & di Benedetto, 1993; Kumar, Bohling, & Ladda, 2003)

Up to 2004, GEELY was the only Chinese firm exporting automobiles. Though it is claimed that the acquisition of Volvo Car by GEELY gave the company access to 2,500 distribution channels throughout 100 countries, and will make it easier for GEELY to get access to overseas markets, (Lieke Wang, 2011) the direct impact of the geographical spread on the brand is not apparent. As stated by an academic branding expert, the fact that the brand has crossed the geographical boundaries from its home market does not necessarily mean this will add directly to its brand equity. The result of this geographical presence is a challenge. Will the brand manage to survive its entry into

the global market and adds to its brand equity or not? The fact that a brand crosses boundaries does not change the perception of the brand. Success in the market is what adds to brand perception and brand image. Geographical presence can add to brand awareness, but brand awareness without a positive image and associations is not much, he concluded.

When BYD decided to establish their showroom in Los Angeles, Stella Li, the Vice President of BYD, said: “LA is the best place to promote our brand.” The selection of the location and the geographical boundaries adds to the image of the brand. The move was also received positively by the California Governor, who called BYD a company of firsts. He said they are leading China and the rest of the world into a cleaner, more sustainable future with their automobiles and renewable energy products, while creating jobs and saving consumers money. The fact that observers perceive the presence of BYD vehicles at Los Angeles International Airport as a unique way to promote the brand, is in itself a proof that geographical presence into the US is adding to the equity of BYD brand. In a way, this is confirming the notion that geographical presence overseas can have an impact on the equity of a brand.

The fact that Chinese brands are still taking their first steps in globalization and geographical expansion does not negate the proposition. But in both cases neither GEELY nor BYD have managed to create significant brand awareness, brand image and positive association, or perceived quality, with their humble efforts abroad so far.

Moving ahead to the joint venture and co-branding as the fourth question, a new proposition can be deduced that joint venture and co-branding are positively affecting the brand equity of Chinese brands. It is well known that bringing two brands together, and associating a lesser one with a strong one, is a fast-forward strategy to building brands.

Brand alliances can take on a symbolic form of co-branding, such as a joint promotion of the use of each brand (Rao, Qu, & Ruekert, 1999) or the co-sponsorship of events (Ruth and Simonin, 2003). A

brand ally can help to improve consumers evaluation when the focal brand has been demonstrated several times (Lafferty, Goldsmith, & Hult, 2004)

The Lenovo's purchase of IBM's PC division in 2004 and the co-branding strategy with a powerful brand such as IBM allowed Lenovo to develop rapidly strong brand association and powerful brand image. The brand alliance of IBM paved the way for Lenovo to build a global brand and compete into a tough industry.

Three Chinese brands were identified by Interbrand as powerful players in the global arena are Lenovo, Haier, and GEELY. "(Made in China, 2008)" Those three have used acquisitions and JVs to leap ahead in terms of building their brand equity. For instance, Lenovo's acquisition of IBM's personal computer division in December 2004 (for US \$1.75 billion) ranks among the most high profile acquisitions made by Asian companies, and many analysts and observers attribute the fast growth brand awareness and brand equity of Lenovo to this strategic move.

Today, almost every major American, Asian, and European manufacturer is in a joint venture with one or more Chinese counterparts. Though China opted to take the joint venture route to fulfil its needs for technology transfer – with the first joint venture agreement between the German Volkswagen and the Chinese Shanghai Automotive Industry Corporation (SAIC) – these joint ventures enabled the Chinese to learn the basics of the modern automotive industry, which became the driver for building stronger brands.

Whether it was planned or coincidental, Chinese brands are getting more from joint ventures and brand association than just technology transfer. One of the advantages for Chinese partners is the association and utilization of the foreign corporations' reputation for famous brands. This in fact adds to the brand's perceived quality, and image of Chinese brands.

In my opinion, and according to analysts, industry experts and practitioners, August 2, 2010, marked a major shift in GEELY's brand transformation in terms of brand awareness, brand image, and

perceived quality. Certainly, a Chinese brand acquiring a well-established Swedish brand is not a commonplace deal.

Originally the vision of GEELY's founder was to build his own brand; yet, in 2008 he shifted strategically into a completely new approach by expanding in depth and breadth, and building a new brand image that ended with the full acquisition of the Volvo brand; a phenomenal acquisition, to say the least. Of course, acquiring Volvo gives GEELY an international profile and a degree of credibility it could never have achieved on its own. The acquisition enabled China to own its first international luxury brand, and constituted a turning point for China's luxury car market, so long dominated by foreign brands. It is also worth noting that the acquisition of the Australian gearbox maker Drivetrain Systems International, plus the alliance to produce London Taxicab, all adds to the positive associations of the brand. As stated by analysts and industry experts, the immediate effect was to raise the GEELY brand to a new level. Brand awareness was boosted dramatically and the world market now knows about GEELY even if they were not seeing its cars. (Global Times, 2011)

When Aaker and Joachimsthaler (2000) mentioned that brand awareness influences perception and that people like the familiar and are prepared to ascribe all sorts of good attitudes to items that are familiar to them. Chinese have first achieved that kind of awareness with their low pricing strategy and established brand awareness yet the brand awareness was not necessarily positive. Now, with the acquisition of Volvo the brand familiarity of GEELY is shifting to be positive and the real challenge is currently to build on the perceived quality and positive associations.

This elevation in brand image will definitely help GEELY's future overseas expansion. As stated by branding experts, one of the benefits of the acquisition of Volvo is the association that places GEELY in the position of a big player.

According to a marketing professor: "The fact that GEELY managed to buy a brand like Volvo implies that GEELY is playing big and is a tough player. This is surely adding to the brand awareness

and brand image of the brand. Furthermore, the impact of the London Taxicab deal is adding positively to GEELY's brand equity. The joint venture with London Taxicab – a hallmark of London – will bring immediate positive brand associations, such as high quality, durability, outperformance in design, and ability to meet high quality standards. Both deals have added tremendously to the perceived quality of GEELY's corporate brand and product brand.”

Similar to GEELY's acquisition of Volvo, BYD's joint venture with Daimler has brought a completely new dimension to the brand since the arrival of Denza marked the first strictly NEV brand in the Chinese market.

This move means that China could soon own a new category of product that, if properly built, could positively support the build up of the BYD brand and Chinese auto brands in general.

BYD's electric car is riding the future wave of the green automotive business. Warren Buffet's investment has elevated the brand awareness and the brand image and brought positive brand associations to BYD.

Though Siminon and Ruth (1995) stated that attitudes towards an alliance are impacted by the attitude prior to the alliance, the researcher's investigations into the impact of co-branding on GEELY and BYD contradicts such a contention. All researchers agreed that this acquisition will positively affect the GEELY brand and aid the elimination of the negative impacts of the Made in China, as well as add brand awareness and positive associations.

As confirmed by branding experts, the BYD deal with Daimler is benefitting China, the industry, and BYD. BYD's move into green technology and innovation is marking a new era for Chinese brands which might even put them ahead of foreign brands when it comes to electric cars. The researcher believes that the association with innovation, plus the positive associations of the Daimler Mercedes venture and the Warren Buffet investment, and the Volvo acquisition and London Taxicab alliance,

will bring a different dimension to both BYD and GEELY, helping to build powerful brand equity and positive associations for them and for Chinese brands in general.

An indicator in Interbrand's brand strength multiplier is the stage when a brand can set its own price point. Have the Chinese really reached this stage? Are the Chinese moving up the ladder to different segments and is their perceived value changing accordingly? The research aimed to investigate the relation between the perceived value and the brand equity of Chinese brands. Although the analysis did not support the question whether GEELY and BYD's perceived values are supporting their pursuit of building strong brand equity, this does not necessarily mean that the question does not hold true for other cases not addressed in this study.

Price is the amount of money a customer is prepared to pay for a specific product or service and is based on their perceptions of a product or service, reflecting their perceived value of the product. As per Anderson, Fornell, & Lehmann (1994): "Consumers compare the trade-off between the quality and benefits they receive in the product or service relative to the sacrifice they perceive in paying the price." (Dodds, Monroe, & Grewal, 1991.p.79)

Marketing decisions on pricing should complement the other elements of the marketing mix. When selecting a price, a marketer must weigh up the differential value which relates to the product's differentiation points relevant to their competitors. Moreover, the price of a product is related to the brand image; when the price is high, typically the brand perception is high. So when the Chinese move up the ladder to higher segments – and possess the proof of claim to justify such a move in terms of product quality and the needs and wants of higher segments – their perceived brand value and the price consumers are willing to pay will also move to a different level.

Perceived value will only increase if the consumer feels the added value. Also, local manufacturing firms have started to realise that competition based on price and basic products alone are not enough. The segment of sophisticated customers is no longer satisfied with the basics and demands more

differentiated products and services (Williamson 2005). For these firms branding would seem to be more advantageous, as the perceived value of the brand will call for a higher margin. (Arrunada & Vazquez, 2006; Maldar & Chaudhuri, 2006) As such it is for sure rather more advantageous for Chinese to move away from the low-price segment and approach a higher segment that would elevate the perceived quality of the brand and even the profit margins of the organization.

The original perception of BYD was as a maker of cut-price imitations of best-selling Toyotas. However, the brand is currently growing into one of China's most successful automotive manufacturers and leading the electric car market. The researcher believes that once its association with electric cars is well established the perceived value of BYD will increase dramatically, enabling BYD to set its price point higher in relation to its improved perceived brand quality, brand association and image.

The centre of gravity is moving towards increasing the perceived value of products and services, which will allow for enforcing a better price point as the equity of the brand goes higher and higher.

According to Zhou & Jiang's study of hotels (2011), strong brand equity leads to a customers' higher perceived value and increases their revisit intentions. They added that perceived quality is the most significant predictor for perceived value, having a significant impact on revisit intentions.

All of the above confirm that perceived value has a significant effect on brand equity. Nevertheless, the researcher believes Chinese brands still have a long way to go to change their perceived value from the market perspective.

Rao and Monroe (1989) show that a positive relationship between price and perceived quality is well founded in previous research. By increasing perceived quality, price is related positively to brand equity.

To conclude, high-priced brands are often perceived to be of higher quality and lower risk compared to low-priced brands. (Blattberg and Winniewski, 1989; Dodds, Monroe, and Grewal, 1991;



Kamakura and Russell, 1993; Milgrom and Roberts, 1986; Olson, 1977) Consequently, price is positively related to perceived quality. The more Chinese brands will move along the ladder to a higher segments and higher prices the more this will add to their perceived quality and brand association and consequently brand equity.

## **CHAPTER SEVEN: CONCLUSION, RECOMMENDATIONS, AND FUTURE WORK**

The following presents the conclusion of the research, as well as recommendations for Chinese organizations regarding the building of powerful brands. Furthermore, the researcher will explore the future work needed for further exploration.

### **7. 1 Conclusion**

According to a report published by consulting firm Booz & Co., the global automotive industry is witnessing a dramatic shift. The global financial crisis has significantly undermined the “triad” markets (Western Europe, North America, and Japan), and has put growing emerging markets, led by China, under the spotlight instead. “(A Chinese Phenomenon, 2009)” China has proved its manufacturing capabilities and made significant strides in building strong brand equity in multiple industries.

Creating brand equity and building strong brands is a successful strategy for differentiating a product from competing brands (Aaker, 1991). Brand equity is developed through brand awareness, enhanced perceived quality, and brand associations, which can only be created in the long term through properly designed marketing investments. Product quality, perceived value, distribution presence, and joint ventures and co-branding act as antecedents of building strong brand equity.

History taught us that organizations can only compete on price for a certain period of time; price competition does not lead to sustainable competitive advantage. Performance based on broader metrics can only deliver longer terms results. “(What Chinese Companies Must Do, 2012)” Chinese brands are on the rise and the strategic focus of Chinese companies recognizes the fact that brand building is the path to sustainable competitive advantage.

Research shows that the impact of country of origin is diminishing, especially with the new generation that has no experience of the period when negative connotations related directly to the

perception of Chinese brands. Today, this new generation is exposed to high quality, innovative Chinese products that deliver on promise. Chinese companies need to invest in innovation, product quality and product development to enhance their brands and build a differentiated competitive advantage. Managers need to rethink their pricing strategies, perceived value, distribution strategies, and communication strategies to add to their brand equity.

Co-branding and joint ventures have had a proven significant impact supporting Chinese companies in the build-up of their brand equity. Such strategic approaches should be studied and maintained carefully to accelerate the brand building of Chinese brands.

When focusing on the automotive industry for instance, one challenge for the Chinese automotive industry is the fact that the major industry players are SOEs in which politics play a major role, and where volume is the key priority while profits, competition, brand building, and quality are of lesser concerns. Politicians rather than innovators are leading the industry. However, when we look at private companies – like GEELY and BYD – we see that real innovators are taking on the business. Their agendas are different from those of the SOEs, which could explain their differences in approach and results. Yet, until now, the overall context has not been very favourable for building a quality-oriented industry. Despite being genuine and integral these are individual initiatives that needs more collaborative efforts to accelerate the shift towards strong Chinese brand equity.

## **7.2 Contribution of the Research**

In summary: The foremost theoretical contribution of this study is its significant results about the antecedents of Chinese brand equity. To date, an adequate empirical study supporting the marketing antecedents affecting brand equity building does not exist.

Although there has been great interest in the concept of brand equity, little conceptual development or empirical research has studied the marketing elements that most significantly support building brand equity (Barwise, 1993). Researchers have focused on exploring the brand equity concept, rather than its sources and development. This study explores product quality, perceived value, distribution presence, and co-branding as elements of the marketing mix, and as sources of brand differentiators and builders of brand equity.

Another contribution of this research is the deduced result on the COO impact and its relation to brand equity opening new horizons and affirming the diminishing impact of the “Made in China” curse especially to the new generation. This study is tracking the significant relation between product quality and brand equity as a strong pillar in Chinese pursuit to build their brands. Furthermore, the study is proposing a new perspective to the effect of joint ventures and its relation to brand equity; an original dimension that is rarely explored. Joint Venture was always researched as a growth strategy and seldom explored in relation to brand equity. Moreover, little research investigated the effect of Co-Branding on Chinese brand equity, this study is shedding light on the importance of this relation especially within Chinese context.

Though still controversial, whether Chinese brands can make it to the world of brands and successful brand building. This study is shedding light on certain Chinese organizations and their journey to building brand equity. Moreover, by tracking the subject, this study will act as a cautionary document for western brands attempting to preserve their long-standing brands and pre-empt the actions of the seemingly all-powerful approaching dragon.

### **7.3 Recommendations**

When China originally opened its markets to the world it earned the reputation of the world's work camp. However, China has experienced such unmatched fast-growing economic expansion – achieving a 9% annual economic growth rate over several years – that it has become the world's second largest economy after the US.

Consequently, the purchase behaviour of Chinese middle-class consumers is changing as they become more demanding and sophisticated. The new generation will set different quality expectations and have a new attitude towards brands.

This shift in consumer behaviour will require a different approach to brand-related needs. The following will propose some significant strategic recommendations for the Chinese brand creation process:

#### **7.3.1 Enhancing the Chinese Competitive Position**

Chinese products are often associated with poor quality. This is sometimes true, but not always; especially not to the products exported to the US and EU markets. China has long managed to export products to markets where a product and its quality are accepted by consumers regardless of its country of origin label. And as previously mentioned, focusing on other attributes rather than the information cue of the COO is recommended, since the Chinese can and do produce high quality products, they need to enhance their competitive position by constantly delivering high quality branded products without mentioning the COO information.

Product quality is a key driver for Chinese brand building. Dominating a particularly innovative business segment – for instance, electric vehicles within the automotive industry – could allow other Chinese innovators to piggyback on its success; enabling them to enhance their competitive position and capitalize on the growing demand for environmentally friendly products.

Competitive focus for China as a nation is crucial for brand differentiation. If Chinese for instance focused on owning the category of electric cars this could help even in reducing the impact of the COO.

Most manufacturers are currently turning to green vehicles and Range Extended Electric Vehicles (REEV) is the future trend. REEV technology for Chinese manufacturers may not yet be at a mature stage but, along with plug-in hybrid vehicles, both are expected to become important projects in the short term for Chinese manufacturers. This move could put Chinese brands several steps ahead in capturing the high-end technology market and add a new dimension to Chinese brand equity.

China's OEMs should now be revising their plans for entering overseas markets and studying strategies to improve their pricing and margins by repositioning brands around value, not just low prices.

According to Sanford C. Bernstein & Co.: "The Chinese are 80 percent of the way there, 20 percent doesn't sound very hard, but it's probably the most complex bits to get right ... They will be spending until they make it work and eventually they will end up with Chinese carmakers on the world stage." China's auto manufacturers must continue improving their quality, strengthen their management teams with global talent, and explore ways to encourage more joint ventures and co-branding efforts.

### **7.3.2 Create Brand Awareness and Strong Global Branding**

Creating and implementing global brand strategies is essential for Chinese companies if they are to successfully acquire a larger share of brand value and enhance their profit streams.

One of the main challenges for Chinese brand building efforts is the perception of quality rather than the actual quality. China's exponential successful export market is witness to the quality of its products. However, achieving consistent high quality standards is crucial for Chinese brands to overcome negative perceptions.

A global brand building strategy and campaign could dramatically shift the brand image and perceived quality of Chinese products, by introducing new and positive brand associations to support the accelerated build-up of Chinese brand equity.

Strong branding boosts the competitive position. Consequently the Chinese need to move up the value chain through strategic branding. They have all the capabilities to reach a competitive position in the near future.

The Chinese must shake off their predominant mind set and make brand building, product quality, brand identity and communication, and availability and distribution their primary concerns.

Brand recognition and preference is a result of proper positioning and perceived quality. Chinese companies need to work hard to establish the competitive positioning that will support their building of successful brands.

### **7.3.3 Building Sustainable Chinese Brand Equity**

The following proposes some important drivers for building Chinese brand equity.

#### *Understand the Behaviour of Chinese Consumers*

China is a nation with a highly distinctive and individual culture. Chinese consumers perceive brand attributes differently to consumers in other parts of the world. Chinese companies need to start by understanding Chinese consumers' behaviours and needs in order to develop efficient branding and diffusion strategies to support the healthy growth of their brands.

This will help create brand awareness, and raise brand image and brand recognition among coming generations.

#### *Product Development and Innovation*

Innovation is a potent differentiation opportunity that Chinese brands need to explore and some have already taken positive steps to push their innovation processes forwards. This will support the build-up of perceived quality and consequently the brand equity of Chinese brands.

There are notable examples of mass manufacturers that have moved up the value chain into the realm of high quality innovation. Manufacturers in Korea, Taiwan and – much earlier – Japan started as OEMs for western brands. Over time each of these countries has completely altered their roles and they are now known for world-class products and powerful brands, such as Sony, Toyota, Honda, Mitsubishi, Panasonic, Samsung, LG, Hyundai, HTC, Acer, etc. The list is long and they are all proof of what is possible. “(Made in China, the Fear Factor, 2012)”

#### *Brand-building and Segmentation*

Chinese brands should focus on developing multiple brands and a planned brand architecture that will address their various targeted segments. This will require Chinese companies to study and understand the different behaviour patterns of Chinese consumers and the changing needs of the segments they want to target.

As also suggested by the McKinsey study, brands (or sub-brands) will, in future, have to be positioned to target narrower consumer segments and offer more tailored value propositions. “(China’s social-media boom, 2012)” Nevertheless, Chinese culture is emotional, so Chinese companies need to take into account the emotional elements while building their brands.

#### *Global Expansion*

Building global brands and expanding through distribution globally is a logical step for Chinese companies. The perception and acceptance of Chinese brands differs from one market to another. A Chinese expansion plan should first consider those markets that have a higher perception of Chinese quality than others. This would help deepen the perceived quality and image of Chinese brands in these specific markets and aid the build-up of Chinese brand equity which, once established in these markets, will stimulate better perception in other markets and allow for expansion.

#### *Approaching the B2C Segments*



One reason why this fast-growing economy has no brands in Interbrand's global top 100 list is its focus on the B2B segment. Most of the 34 Chinese companies in the *Fortune* Global 500 sell to businesses and, of course, building brand recognition is much harder for B2B firms than for B2C companies "(Why China Still Can't, 2010)". Chinese companies need to shift gear a bit to include some strategic focus on B2C brands, while carefully studying specific industries in order to address specific target segment needs and purchasing behaviours.

While approaching the B2C segment, Chinese need to learn the importance of brand name selection. Chinese were not very successful in their selection of brand names. The development of proper brand naming strategies will elevate the perception and positive image of the brands.

#### *Brand Building through Partnership and Co-branding*

Chinese brand building could come through acquisition and partnership – e.g. Lenovo and GEELY – or through organic brand building, as in the case of Haier. The acquisition of foreign brands will definitely support market growth and positive brand reputation and image.

It is clear that brand building through partnerships is a fast-forward strategy to support the brand equity of Chinese brands by strengthening brand awareness, raising perceived quality via the other brand, and forging stronger associations of trust.

#### *Constant and Consistent Communication*

Branding strategies are built internally then communicated externally. It is crucial that, while the Chinese are building their brands, they recognize the fact that employees are the ones who, at the end of the day, communicate branding strategies externally. Only if employees properly understand the strategy, its meaning, and promise will they be capable of doing this. As noted by Aaker (1991) and Marinova et al. (2011) association with a brand might be stronger when it is based on more numerous experiences or exposures to communications, rather than to a just a few. Consistent communication

with consumers is fundamental to assuring that they understand brand attributes and promises through various touch points.

## **7.4 Future Work**

First, this study investigates the automotive brands using case-studies to attain the company/industry perspective. If further qualitative studies were to follow, the incorporation of the consumer perspective would provide more insights for Chinese organizations and stakeholders and would deepen the industry experts, academia, and pragmatic views.

This exploratory research is based on qualitative data collection; in-depth structured interviews and cross-case analysis and thus could be recognised as having some limitations. Although such research provides deep understanding of the phenomena under investigation in organisational settings at many companies, however, it is difficult to provide generalisable conclusions. Therefore, future research could focus on the validation of the findings from this study and the proposed model using larger sample sizes.

Applying the same model to other industries would also support in tracking the validity of the antecedents of brand equity across different industries.

Moreover, two propositions in this study did not hold. Further research into the impact of distribution and perceived value on brand equity is needed.

Since the conceptual framework of this study is not based on previous models, further studies of the constructs and their relations are needed to support any limitations in the model. A key conceptual limitation is that the variables of this study are too broad to provide tips for detailed marketing practices. For example, it should be accepted only with caution that all product quality aspects build a strong brand. Studying which investment in product execution builds a strong brand will be more insightful for developing specific product strategy.

Furthermore, the Chinese consumer is changing in terms of behaviour and expectations of quality, further study on the new dimensions that determines quality would be insightful.

This study explores the effect of individual marketing variables and does not investigate the interactions between them. Product quality could interact with price and distribution; it is the mix of marketing strategies that both scholars and managers need to understand in the context of developing and improving brand equity. Future research should investigate the interaction effect of marketing mix on brand equity.

The focus of this study on the Chinese brand managed to give insights on the antecedents of Chinese brand equity, and could not be generalized to other countries. Further investigation of these elements on other markets will further contribute to the topic.

It would bring depth to the analysis to conduct a comparison between a successful Chinese brand such as GEELY and another case that did not manage to make it successfully to proper brand building. The pitfalls and challenges of an unsuccessful case would bring depth and richness to the topic.

A new study addressing the domestic Chinese brands with those German brands such as VW and Audi who started with OEM model in China would also bring depth to the studies addressing Chinese brand building.

It would also bring a new angle to the research in the future to add some financial indicators such as profits, earnings per share to reflect on the brand value of successful brands.

Chinese automotive industry went through different cycles of manufacturing; it would be interesting to look at the different phases from Original Equipment Manufacturer (OEM), to Original Design Manufacturer (ODM) and Original Brand Manufacturer (OBM).

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## **APPENDICES**

### **Appendix 1: The Evolution of the Automotive Industry in China**

<b>Year</b>	<b>Evolution of the Automotive Industry in China</b>
1950	China set up its first auto plant – the First Auto Works (FAW)
1960	China established the Second Auto Works (SAW)
1983	An agreement with AMC was signed to set up the Beijing Jeep Company
1984-1985	Shanghai Auto Industry Corporation (SAIC) -VW (SVW) in 1984, Guangzhou-Peugeot in 1985
1985	China was only producing a total of only 5,200 passenger cars per annum
1986	Tianjin Auto Works purchased Daihatsu’s Charade technology
1992	FAW–VW was established, and SAW and Citroen also set up a joint venture
1997	The Guangzhou-Peugeot venture was unsuccessful and Peugeot pulled out
1997	Entry into the World Trade Organization
Late 1990s	Growth in mature worldwide automobile markets began to stagnate
2000	China revised its foreign business law and eased entry restrictions
2000	The individual consumer constituted 45% of the total market
2001	Local automobile firms started to appear in China such as the state-owned Hafei and Chery, and the privately-owned GEELY, BYD, and Great Wall
2002-2007	Car production in China grew by an average of 45% per year
2002	One million vehicles produced per annum
2006	China became the third largest producer of motor vehicles
2007	Five million vehicles produced per annum
2009	China surpassed the US to become the world’s largest auto market based on monthly sales
2009	China produced 13.79 million automobiles, out of which 8 million were passenger cars and 3.41 million were commercial vehicles
2010	Sales and production reached 18 million units, with 13.76 million passenger cars produced
2011	China’s own branded passenger cars had a sale volume of 6.11 million vehicles
2012	The Chinese State Council issued the “Energy-Saving and New Energy Vehicle Development Plan” to accelerate the development of new energy vehicles

## Appendix 2: Official Letter Requesting Interview



Dear Mr. Mazhar,

Let me first introduce myself, my name is Noha Alaa, I am currently working on my PhD dissertation from Durham University in the UK. I was referred to you by Mr. Ahmed Khalil since my topic is “The Antecedents of Brand Equity: The Chinese Path to Building Brands; A case Study of GEELY & BYD”.

During the course of my study, I am working on developing the case study of the two brands and how they are developing their brands.

I would appreciate if you can spare me a 30 minutes interview with your good self to discuss GEELY brand. The interview output will be used solely for the purpose of the study. All information provided will be confidential and anonymous.

As per our phone call, I would appreciate if we can meet anytime on Sunday 2<sup>nd</sup> of September at your convenience.

Thank you for your support and your willingness to participate in this doctoral study.

Noha Alaa

Durham Business School

### Appendix 3: Official Arabic Letter Requesting Interview



عناية السيد المهندس/ حسن سليمان

رئيس مجلس الإدارة

مجموعة شركات الامل

تحية طيبة وبعد،،،

اتشرف بارسال هذا الخطاب لشخصكم الكريم، و بدءا اعرفكم بنفسى، اسمى نهى احمد علاء الدين اعمل فى مجال التسويق وطالبة دكتوراه بجامعة ديروم بانجلترا Durham University.

اعمل حاليا على رسالة الدكتوراه و موضوعها: بناء العلامات التجارية الصينية: قصة تطور جيلى و بى واى دى.

“The Antecedents of Brand Equity: The Chinese Path to Building Brands; A case Study of GEELY & BYD”

ونظرا لما تحمله شركة الامل من ريادة فى التوكيلات منذ عام 1970 و مؤخرا الانفراد بتوكيل بى واى دى، ارجو السماح بتحديد موعد مع سيادتكم خلال هذا الاسبوع ان امكن يوم الاثنين او الاربعاء الساعة 12:00 ظهرا لمناقشة قصة نجاح التوكيل فى مصر.

اتمنى ان ينال خطابى الاهتمام من سيادتكم نظرا لاهمية الموضوع.

سوف اقوم بالمتابعة مع مكتب سيادتكم لتأكيد الميعاد...

شكرا جزىلا على المساعدة، وفقكم الله ...

نهى احمد علاء الدين

Durham University – UK طالبة بجامعة

محمول: 01222400110

**Appendix 4: Structured In-depth Interview Guide**

**Structured In-depth Interview Guide**

**Date:**

**Name:**

**Company:**

**Years within the automotive Industry:**

**Focus:**  Professor

Academic Entity

Others: -----

**Email:**

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Target: Automotive Industry - Chinese Sedan Cars (China the largest passengers' vehicles in the world 2010) -  
Case Study Analysis: Geely & BYD

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This questionnaire is designed for educational purposes, as part of a PhD dissertation to assess the antecedents of brand equity of Chinese brands. It is a one step of a multi research to examine the Chinese path to building their brands.

You are invited to participate in this study by agreeing to conduct an in depth interview for about 60 to 90 minutes. Follow up may be necessary to solicit additional information or to clarify your response. The data gathered will be used only for the research purpose.

All information provided will be handled as strictly confidential and anonymously, and only the researcher will have access to the information provided. **Thank you in advance for your time, and cooperation.**

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**Country of origin and Brand Equity**

1. Why in your opinion China became the largest passengers' vehicles in the world?

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2. In your opinion how is the Chinese country of origin affecting the brand awareness of Chinese brands?

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3. In your opinion how is the Chinese country of origin affecting the brand perceived quality of Chinese brands?

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-----  
4. In your opinion how is the Chinese country of origin affecting the brand association and image of Chinese brands?

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-----  
5. From your perspective, can you notice any change in the Chinese COO effect? What changes can you observe in the effect of Chinese COO?

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-----  
**Product quality and the brand equity of Chinese Brands**

6. In your opinion, what are the key differentiators that helped Chinese brands to reach such position within the automotive industry?

-----  
-----  
7. How would the product quality contribute to the development of the brand?

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-----  
8. How would innovation contribute to the development of the brand?

-----  
-----  
9. How would you describe the Geely manufacturing of Taxi of England?

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-----  
10. In your opinion, will Chinese make it successfully to the Electric cars development? Would they be pioneer in that? How would this affect their brand performance and equity?



**Perceived Value & Chinese brands**

11. Chinese brands are known for their low price low quality, high volume strategy, can you describe any transformation in this strategy within the automotive industry?

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12. How would you describe the Chinese brand perception of value, has any changes occurred? Probe on any new directions towards high quality brands? High end segments?

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If yes, what steps have Chinese auto brands took?

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**Presence and geographical spread and Chinese brand equity**

13. In your opinion, how presence and geographical spread are supporting the brand equity of Chinese brands?

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14. In your opinion, is there any incidents relating to Chinese geographical spread and export that you foresee supporting the brand equity of Chinese brands?

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15. How would you describe the international presence in North of America, and Europe for Chinese brands such as Geely and BYD? How would this influence the perception of quality? And in your opinion, how would they maintain their presence in such tough markets?

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**Joint Ventures & Co. Branding and Chinese brand equity**

16. Chinese brands depended on JV and Co. Branding with top manufacturers and auto components, what impact had such strategy to the building of the Chinese brand equity? Probe on; Volvo, Brilliance & BMW, Mercedes & BYD,..

- a. What is your perception when you know that GEELY - the Chinese manufacturer - has bought VOLVO?
- b. What is your perception when you know that London Taxicab is currently produced in China by GEELY?

-----  
17. In your opinion, what are the key benefits of such JV and Co. Branding?  
-----

**Factors supporting the evolvement of Chinese brands?**

18. Would you anticipate having Chinese brands listed in the top 100 brand worldwide? If no, what will they need to make it to that position?  
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19. In your opinion, what factors supported the evolvement of the Chinese brands?  
-----  
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20. Which of them is the most significant?  
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**21. In your opinion, what would make a differentiated brand?**  
-----  
-----

**22. Would you like to add any comments?**  
-----  
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**Thank you for your time and valuable insights**

## **Appendix 5: Focus Group Guide**

### **Focus Group Guide**

#### **Marketing Practitioners**

##### **Purpose & Objective – 5 min**

The main purpose of this focus group is to take marketing practitioners opinion about the suggested conceptual model. The objective is to assure that the selected attributes from literature and proposed to compose the model are valid from a practical point of view.

##### **The Proposed Model Testing – 30 min**

- A. The moderator will start by investigating the opinion of marketers about the brand differentiator variables
  - 1. Please list in your opinion the elements necessary to differentiate a brand?
  - 2. Can you please list them in terms of importance?
  
- B. If we are discussing a Chinese brand that needs to get differentiated, would these attributes change in any way?
  - 1. Please highlight any new variables to be added?
  - 2. Please highlight any unneeded variables?
  - 3. Please list them in terms of importance?

##### **Antecedents of Brand Equity – 30 min**

- C. The moderator then shares the model with the respondents and discusses the different attribute as antecedents of brand equity?
  - a. What do you feel is missing and needs to be added to the model?

##### **COO Effect – 20 min**

- D. In your opinion, can you foresee any change in the effect of Chinese COO? Probe on negative effect is diminishing, remaining as is, neutral
- E. In your opinion, what do Chinese need to do to reduce/eliminate the effect of the COO on their brands?

**Thank you for your time and cooperation**

**Appendix 6: Pre-Coded Database for Triangulation Purposes**

<b>Proposition I: Chinese brands are emerging towards building strong brands</b>			
<b>#</b>	<b>Article</b>	<b>Theme</b>	<b>Source of Info</b>
1	A configurational perspective of branding capabilities development in emerging economies: The case of the Chinese cellular phone industry	Brand building - Why?	E-Journal Article
2	BrandZ report 2012	Chinese brand equity	Business report
3	Williamson, P. (2005). Strategies Asia's new competitive game. <i>Journal of Business Strategy</i> , 26(2). 37-43.	Chinese brand equity	E-Journal Article
4	Quelch, J., & Knoop, C-I. (2006). <i>Lenovo building a global brand (Case 9-507-014)</i> . Cambridge, MA : Harvard Business School Publishing	Brand building - Why?	Business Article
5	Interbrand. (2008). <i>Best Global Brands 2008</i> . Retrieved August 23, 2012, from <a href="http://www.interbrand.com">www.interbrand.com</a>	Chinese brand equity	Business report
6	Aaker, D.A. (1996). <i>Building Strong Brands</i> . New York: The Free Press.	Chinese brand equity	Book
7	Made in China - Baggage or Blessing for Chinese Brands?, retrieved August 23rd, 2012, <a href="http://www.venturerepublic.com">www.venturerepublic.com</a>	Brand building - Why?	Business review
8	Branding - The strongest value driver for New Asia, retrieved August 23rd, 2012, <a href="http://www.venturerepublic.com">www.venturerepublic.com</a>	Brand building - Why?	Business review
9	The GEELY brand - China's entry to the global car market, retrieved August 23rd, 2012, <a href="http://www.venturerepublic.com">www.venturerepublic.com</a>	Brand building - Why?	Business review
10	Asian Brand Strategy - a new paradigm for Asia, retrieved August 23rd, 2012, <a href="http://www.venturerepublic.com">www.venturerepublic.com</a>	Brand building - Why?	Business review
11	Complete guide to China branding – 10 steps for China brands, August 23rd, 2012, <a href="http://www.venturerepublic.com">www.venturerepublic.com</a>	Chinese brand equity	Business review

12	GEELY Automobile Holding limited - Annual Report 2011, retrieved July 1st 2012, www.GEELYauto.com.hk	Brand building - Why?	Annual report
13	GEELY Automobile Holding limited - Annual Report 2010, retrieved June 12th 2012, www.GEELYauto.com.hk	Brand building - Why?	Annual report
14	BYD Company Limited – Annual Report 2011, retrieved July 1st 2012, www.byd.com	Brand building - Why?	Annual report
15	Made in China 2008: The Challenge for Chinese Brands Going Global. Interbrand, 2008. Retrieved on March 11th 2012, www.interbrand.com.	Brand building - Why?	Business report
16	BrandZ Top 100 Global Brands, 2011. Retrieved on August 29th, 2012, www.brandz.com	Chinese brand equity	Business report
17	1. Yang, W., & W, E., 2008. <i>Manufacturing a Brand, China Focus</i> . Retrieved on August 19 <sup>th</sup> , 2012.	Chinese brand equity	E-Journal Article
18	<i>The Lauder Global Business Insight Report 2011: On the Move: Adapting to a New Global Economy. The Lauder Institute. Wharton Arts &amp; Sciences, University of Pennsylvania.</i>	Brand building - Why?	Business Report
19	Hague, P., and Jackson, P., 1994. <i>The Power of Industrial Brands: An Effective Route to Competitive Advantage</i> . London: McGraw Hill.	Brand building - Why?	Book
20	Dai, Wenwen, Cimarosti, Arrigo, Meister, Max, (2012). <i>The Rise of Chinese Brand Equity</i> ” BV4 Brand Report 2/2012. Retrieved 29 <sup>th</sup> May, 2013.	Chinese brand equity	Business Report
21	“The Middle Blingdom”, <i>The Economist</i> , February 17th 2011.	Brand building - Why?	Business Magazine
22	“Meet the 2020 Chinese Consumer”, McKinsey&Company, 2012.	Chinese brand equity	Business Report
23	“Luxury brands in China”, KPMG, Monash University, TNS, 2007.	Chinese brand equity	Business Report

24	“Chinese puzzle“, Brand Finance Journal, March 2012.	Brand building - Why?	Business Journal
25	“Luxury Goods Worldwide Market Study, Spring 2012 Update“, Bain & Company, 2012.	Chinese brand equity	Market Study
26	’Thanks, but no thanks’ to Made in China?”, Knowledge@Wharton, 2012	Brand building - Why?	Business Study
27	“Brand Effect on Consumer Behavior in China”, Fibres & Textiles in Eastern Europe, April/June 2004.	Brand building - Why?	E-Journal Article
28	“How face influences consumption: a comparative study of American and Chinese consumers, International Journal of Market Research, 2007.	Brand building - Why?	E-Journal Article
29	“The most valuable social media brands 2012“, BV4 – Brand Valuation Experts, 2012	Chinese brand equity	Business Report
30	“China Brand Opportunities“, Accenture, 2007.	Chinese brand equity	Business Review
31	Cui, Wenbo, (2011). CREATING CONSUMER-BASED BRAND EQUITY IN THE CHINESE SPORTS SHOES MARKET: Measurement, challenges and opportunities. Master’s Thesis submitted in Aalborg University. Retrieved 2 <sup>nd</sup> June, 2013	Chinese brand equity	Thesis

**Proposition II: Chinese Country of Origin is no longer an obstacle to build strong brand equity**

#	Article	Theme	Source of Info
1	The effect of Brand's COO image on the formation of Brand Equity	COO & Brand Equity	E-Journal Article
2	A case study of the aquisition of Swedish Volvo and Chinese Geely	COO & Brand Equity	Case Study
3	Cobb-Walgren, C.J., Ruble, C.A., & Donthu, N. (1995). Brand equity, brand preference, and purchase intent, <i>Journal of Advertising</i> , 24(3), 25-40	COO & Brand Equity	E-Journal Article
4	Wong, Y.C., M.J. Polonsky, & R. Garma, 2008. The impact of consumer ethnocentrism and country of origin sub-components on high involvement products on young Chinese consumers' product assessments. <i>Asia Pacific Journal of Marketing</i> , 20(4): 455-478.	Marketing & Branding	E-Journal Article
5	Narouzi, A., & Hosienabadi, B., 2011. The Impact of Brand Equity on Purchase Intention and Brand Preference-the Moderating Effects of Country of Origin Image, <i>Australian Journal of Basic and Applied Sciences</i> , 5(12): 766-770.	COO & Brand Equity	E-Journal Article
6	Moradi, H., & Zarei, A., 2011. The Impact of Brand Equity on Purchase Intention and Brand Preference-the Moderating Effects of Country of Origin Image, <i>Australian Journal of Basic and Applied Sciences</i> , 5(3): 539-545	COO & Brand Equity	E-Journal Article
7	Isaac, T., 2012. Asian Conversation, January 2012. Made in China, the fear factor, Hong Kong. Retrieved August 29th, 2012.	COO & Brand Equity	E-Journal Article

8	Chao Paul, Impact of Country-of-Origin Dimensions on Product Quality and Design Quality Perceptions, <i>Journal of Business Research</i> (1998).	COO & Brand Equity	E-Journal Article
9	Robert A. Peterson and Alain J. P. Jolibert, A Meta-Analysis of Country-Of-Origin Effects, <i>Journal of International Business Studies</i> , Vol. 26, No. 4 (4th Qtr., 1995), pp. 883-900.	COO & Brand Equity	E-Journal Article
10	Julie M. Pharr, Synthesizing Country-of-Origin Research from the Last Decade: Is the Concept Still Salient in an Era of Global Brands?, <i>Journal of Marketing Theory and Practice</i> , Vol. 13, No. 4, Globalization and Its Marketing Challenges (Fall, 2005), pp. 34-45.	COO & Brand Equity	E-Journal Article
11	Schooler, Robert D., Wildt, Albert R., and Jones, Joseph M.: Strategy Development for Manufacturing Products of Third World Countries. <i>Journal of Global Marketing</i> 1 (1/2) (1987): 251–269.	COO & Brand Equity	E-Journal Article
12	Thorelli, Hans B., Lim, J. S., and Ye, J.: Relative Importance of Country-of-Origin, Warranty on Retail Store Image on Product Evaluations. <i>International Marketing Review</i> 6 (1) (1989): 35–46.	Marketing & Branding	E-Journal Article
13	Cordell, Victor V.: Effects of Consumer Preferences for Foreign Sourced Products. <i>Journal of International Business Studies</i> 23 (2) (1992): 251–269.	Marketing & Branding	E-Journal Article
14	Leclerc, F., Schmitt, B. H., and Dube', L.: Foreign Branding and Its Effects on Product Perceptions and Attitudes. <i>Journal of Marketing Research</i> 31 (May 1994): 263–270.	Marketing & Branding	E-Journal Article



15	Sauer, Paul L., Young, Murray A., and Unnava, H. Rao: An Experimental Investigation of the Processes behind the Country of Origin Effects. <i>Journal of International Consumer Marketing</i> 3 (2) (1991): 29–59.	COO & Brand Equity	E-Journal Article
16	Samiee, Saeed, Terence Shimp, and Subhash Sharma (2005), "Brand Origin Recognition Accuracy: Its Antecedents and Consumers' Cognitive Limitations," <i>Journal of International Business Studies</i> , 36 (4), 379-98.	COO & Brand Equity	E-Journal Article
17	Thakor, Mrugank V. and C. S. Kohli (1996), "Brand Origin: Conceptualization and Review," <i>Journal of Consumer Marketing</i> , 13 (3), 27-42.	COO & Brand Equity	E-Journal Article
18	Chen, Hsiu-Li (2004), "Testing the Role of Country of Origin in Consumer Adoption of New Products," <i>International Advances in Economic Research</i> , 10 (3), 245-56.	Marketing & Branding	E-Journal Article
19	Pham, Kien-Quoc Van (2006), "Strategic Off-Shoring from A Decomposed COO's Perspective: A Cross-Regional Study of Four Product Categories," <i>Journal of American Academy of Business</i> , Cambridge, 8 (2), 59-67.	COO & Brand Equity	E-Journal Article
20	Orth, Ulrich R. and Zuzana Firasova (2003), "The Role of Consumer Ethnocentrism in Food Product Evaluation," <i>Agribusiness</i> , 19(1), 137-46.	COO & Brand Equity	E-Journal Article
21	Balabanis, George and Adam Diamantopoulos (2004), "Domestic Country Bias, Country of Origin Effect, and Consumer Ethnocentrism," <i>Academy of Marketing Science Journal</i> , 32(1) 80-91.	COO & Brand Equity	E-Journal Article

22	Gurhan-Canli, Zeynep and Durairaj Maheswaran (2000a), "Cultural Variations in Country of Origin Effects," <i>Journal of Marketing Research</i> , 37 (3), 309-17	COO & Brand Equity	E-Journal Article
23	LaRoche, Michael, Nicholas Papadopoulos, Louise Heslop, and Jasmin Bergeron (2003), "Effects of Sub- Cultural Differences on Country and Product Evaluations," <i>Journal of Consumer Behaviour</i> , 2 (3), 232-47.	COO & Brand Equity	E-Journal Article
24	Klein, Jill G., Richard Ettenson, and Marlene D. Morris (1998), "The Animosity Model of Foreign Product Purchase," <i>Journal of Marketing</i> , 62 (1), 89-100	COO & Brand Equity	E-Journal Article
25	Insch, Gary S. and J. Brad McBride (2004), "The Impact of Country-of-Origin Cues on Consumer Perceptions of Product Quality: A Binational Test of the Decomposed Country-of-Origin Construct," <i>Journal of Business Research</i> 57 (2), 256-65.	COO & Brand Equity	E-Journal Article
26	Liu, Scott S. and Keith F. Johnson (2005), "The Automatic Country-of-Origin Effect on Brand Judgments," <i>Journal of Advertising</i> , 34 (1), 87-98.	COO & Brand Equity	E-Journal Article
27	Veriegh, Peeter W. J. and Jan-Benedict E. M Steenkamp,. ( 1999), "A Review and Meta-Analysis of Country-of- Origin Research," <i>Journal of Economic Psychology</i> , 20(5)521-46.	COO & Brand Equity	E-Journal Article
28	Hui, Michael K. and Lianxi Zhou (2002), "Linking Product Evaluations and Purchase Intention for Country-of- Origin Effects," <i>Journal of Global Marketing</i> , 15 (3/4), 95-101.	COO & Brand Equity	E-Journal Article

29	Ahmed, Zafar, James P. Johnson, XiaYang, Chen Fatt, Han Teng, and Lim Chee Boon (2004), "Does Country of Origin Matter for Low-Involvement Products?" <i>International Marketing Review</i> , 21 (1) 102-20.	COO & Brand Equity	E-Journal Article
30	Lin, Chien-Huang and Danny T. Kao (2004), "The Impacts of Country-of-Origin on Brand Equity," <i>Journal of American Academy of Business</i> , Cambridge, 5 (Jan/Feb), 37-40.	COO & Brand Equity	E-Journal Article
31	Teas, R. Kenneth and Sanjeev Agarwal (2000), "The Effects of Extrinsic Product Cues on Consumers' Perceptions of Quality, Sacrifice, and Value," <i>Academy of Marketing Science Journal</i> , 28 (2), 278- 90.	Marketing & Branding	E-Journal Article
32	Jo, Myung-Soo, Kent Nakamoto, and James E. Nelson (2003), "The Shielding Effects of Brand Image Against Lower Quality Countries-of-Origin in Global Manufacturing," <i>Journal of Business Research</i> , 56 (8), 637-49.	COO & Brand Equity	E-Journal Article
33	Gurhan-Canli, Zeynep and Durairaj Maheswaran (2000a), "Cultural Variations in Country of Origin Effects," <i>Journal of Marketing Research</i> , 37 (3), 309-17.	COO & Brand Equity	E-Journal Article
34	Lee, Wei-Na, Tai Woong Yun, Byung-Kwan Lee (2005), "The Role of Involvement in Country-Of-Origin Effects on Product Evaluation: Situational and Enduring Involvement," <i>Journal of International Consumer Marketing</i> , 17 (2,3), 51-59.	COO & Brand Equity	E-Journal Article

35	Miyazaki, Anthony D., Dhmv Grewal, and Ronald C. Goodstein (2005), "The Effect of Multiple Extrinsic Cues on Quality Perceptions: A Matter of Consistency "Journal of Consumer Research, 32 (1), 146-54.	Marketing & Branding	E-Journal Article
36	Pecotich, Anthony and Melissa J. Rosenthal (2001), "Country of Origin, Quality, Brand and Consumer Ethnocentrism," Journal of Global Marketing, 15(2), 31-41.	COO & Brand Equity	E-Journal Article
37	Cervino, Julio, Joaquín Sanchez, and Jose Maria Cubillo (2005), "Made In Effect, Competitive Marketing Strategy, and Brand Performance: An Empirical Analysis for Spanish Brands," Journal of American Academy of Business, 6 (2), 237-44.	Marketing & Branding	E-Journal Article
38	Liefeld, John P. (2004), "Consumer Knowledge and Use of Country-of-Origin Information at the Point of Purchase," Journal of Consumer Research, 4 (2), 85-97.	COO & Brand Equity	E-Journal Article
39	Madden, Normandy (2003), "Survey: Brand Origin Not Major Factor for Most Asians," Advertising Age, 1A (14), 33.	COO & Brand Equity	E-Journal Article
40	Papadopoulos, Nicolas G. & Louise A. Heslop. 1993. Product-country images: Impact and role in international marketing, New York: International Business Press.	COO & Brand Equity	E-Journal
41	Schooler, Robert D. 1965. Product bias in the Central American Common Market. Journal of Marketing Research, 4 (November): 394-97.	Marketing & Branding	E-Journal Article

42	Lim, Jeen-Su, William K. Darley & John O. Summers. 1994. An assessment of country-of-origin effects under alternative presentation formats. <i>Journal of the Academy of Marketing Science</i> , 22 (Summer): 274-82.	COO & Brand Equity	E-Journal Article
43	Fishbein, Martin. 1963. An investigation of the relationships between beliefs about an object and the attitude toward that object. <i>Human Relations</i> , 16 (August): 233-40.	Marketing & Branding	E-Journal Article
44	Ahmed, S. A., d'Astous, A., and El Adraoui, M., (1994), Country-of-Origin Effects on Purchasing Managers' Product Perceptions, <i>Industrial Marketing Management</i> 23, 323-332	COO & Brand Equity	E-Journal Article
45	Ahmed, S. A., and d'Astous, A., L'influence du pays d'origine sur l'évaluation de produits suscitant différents niveaux d'implication, <i>Canadian Journal of Administrative Sciences</i> 10, 48-59 (1993).	COO & Brand Equity	E-Journal Article
46	d'Astous, A., and Ahmed S. A., Multi-Cue Evaluation of Made-in Concept: A Conjoint Analysis Study in Belgium, <i>Journal of Euromarketing</i> 2, 9-31 (1993).	COO & Brand Equity	E-Journal Article
47	Pham, Kien-Quoc Van (2006), "Strategic Off-Shoring from A Decomposed COO's Perspective: A Cross-Regional Study of Four Product Categories," <i>Journal of American Academy of Business</i> , Cambridge, 8 (2), 59-67.	COO & Brand Equity	E-Journal Article
48	THAKOR, MRUGNAK V. AND ANNE M. LAVACK (2003), "Effect of Perceived Brand Origin Associations on Consumer Perceptions of Quality", <i>Journal of Product and Brand Management</i> , 12 (6), 394-407.	COO & Brand Equity	E-Journal Article
49	"China, a Social Media Country", <i>Forbes India</i> , July 2012.	COO & Brand Equity	Business Magazine

50	“China’s Digital Generations 3.0: The Online Empire”, The Boston Consulting Group, 2012.	COO & Brand Equity	Business Review
51	“China’s social-media boom“, McKinsey&Company, 2012.	COO & Brand Equity	Business Review
52	“The most valuable social media brands 2012“, BV4 – Brand Valuation Experts, 2012	Marketing & Branding, COO & Brand Equity	Business Review
53	“China Brand Opportunities“, Accenture, 2007.	Marketing & Branding	Business Review
54	Huang, R., and Sarigöllü, E. (2011) How brand awareness relates to market outcome, brand equity, and the marketing mix. <i>Journal of Business Research</i> , 07136.	Marketing & Branding	E-Journal

**Proposition III: Product Quality is Positively Affecting the Brand Equity of Chinese Brands**

#	Article	Theme	Source of Info
1	New GEELY IG Hybrid Electric Vehicle Costs 1,470 Dollar   Suite101.com <a href="http://suite101.com/article/new-GEELY-ig-hybrid-electric-vehicle-costs-1470-dollar-a228504#ixzz240Xdt5G6">http://suite101.com/article/new-GEELY-ig-hybrid-electric-vehicle-costs-1470-dollar-a228504#ixzz240Xdt5G6</a> – Retrieved on 19th of August, 2012.	Hybrid and Green Vehicles	E-Article
2	Arrunada, B., & Vazuez, X. (2006) When you contract manufacturer become your competitor, Harvard Business Review, 84(9), 135-144.	Product Quality	Business Review
3	GEELY Automobile Holding limited - Annual Report 2011, retrieved July 1st 2012, www.GEELYauto.com.hk	Product Quality, Technology Innovation and Safety, Hybrid and Green Vehicles	Annual Report
4	GEELY Automobile Holding limited - Annual Report 2010, retrieved June 12th 2012, www.GEELYauto.com.hk	Product Quality, Technology Innovation and Safety, Hybrid and Green Vehicles	Annual Report
5	BYD Company Limited – Annual Report 2011, retrieved July 1st 2012, www.byd.com	Product Quality, Technology Innovation and Safety, Hybrid and Green Vehicles	Annual Report
6	Chen, Y.S., 2009, The drivers of green brand equity; green brand image, green satisfaction and green trust. Journal of Business Ethics, 93(2): 307-319.	Hybrid and Green Vehicles	E-Article
7	Wu, P, J., & Kuo Y, 2012. Successful Entrepreneurship and Innovative Strategies in China: The Experience of BYD. International e-Journal of Business & Technology Leadership	Technology, Innovation, and Safety	E-Journal Article
8	Turner S., H. The Role of Firms in China's Green Marketing, University of Ballarat, Australia.	Hybrid and Green Vehicles	E-Journal Article

9	Kasperk, G., & Wilhelm, J., & Wagner, W., National Competitive Advantage of China in Electric Mobility: The Case of BYD. Center for International Automobile Management – RWTH Aachen University.	Hybrid and Green Vehicles	Case Study
10	Huckman, S., R., & Maccormack, D., A., 2009. Harvard Business School, BYD Company Ltd.	Product Quality	Business Review
11	Tse, E., Ma, K., Huang, H., 2009. Shan Zhai: A Chinese Phenomenon, Booz & Company Inc.	Product Quality, Technology Innovation and Safety	Business Report
12	Hou, Y., & Xu, M., & Gong, P., & Huang l., 2011. Electric Vehicles: China. Nomura International (Hong Kong) Limited.	Hybrid and Green Vehicles	Business Report
13	Aaker, D. A. (1986) Measuring brand equity across products and markets. <i>California Management Review</i> , Vol.38, No. 3, Pg 102.	Product Quality	E-Journal Article
14	Steenkamp, J-B.E. (1997) Dynamics in consumer behaviour with respect to agricultural and food products. In <i>Agricultural Marketing and Consumer Behaviour in a Changing World</i> .	Product Quality	E-Journal Article
15	Bernue´s, A., Olaizola A. and Corcoran K. (2003) Extrinsic attributes of red meat as indicators of quality in Europe: an application for market segmentation. <i>Food Quality and Preference</i> 14(4): 265-76.	Product Quality	E-Journal Article



16	<p>Olson, J.C. and Jacoby, J. (1972) Cue utilisation in the quality perception process. In Venkatesan, M. Ed. Proceedings of the Third Annual Conference of the Association for Consumer Research, Association for Consumer Research, Chicago, IL, pp. 167-79.</p>	Product Quality	Business Report
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**Proposition IV: Geographical Presence is supporting the brand equity of Chinese brands**

#	Article	Theme	Source of Info
1	Geely annual report 2010	Expansion and International Presence	Annual Report
2	Geely annual report 2011	Expansion and International Presence	Annual Report
3	BYD Company Limited – Annual Report 2011, retrieved July 1st 2012, www.byd.com	Expansion and International Presence	Annual Report
4	Kanika Datta (2008-08-12). "The world of globality is not flat". Business Standard. <a href="http://www.business-standard.com/india/news/%5Cthe-worldglobality-is-not-flat%5C/331078/">http://www.business-standard.com/india/news/%5Cthe-worldglobality-is-not-flat%5C/331078/</a> . Retrieved August 28th, 2012.	Acquisition and Openness to International Markets	Business Article
5	The Lauder Global Business Insight Report 2011: On the Move: Adapting to a New Global Economy. The Lauder Institute. Wharton Arts & Sciences, University of Pennsylvania.	Acquisition and Openness to International Markets	Business Report
6	Kasperk, G., Drauz, R., Wilhelm, J. & Laeuppi, U. 2011, "Internationalization of Chinese Automobile Companies", Lulu, Raleigh.	Acquisition and Openness to International Markets	Business Report
7	Rosenbroijer, C.J., 2001. Industrial Brand Management: A Distributor's Perspective in the UK Fine-Paper Industry. Journal of Product and Brand Management. 10(1), 7-25.	Expansion and International Presence	E-Journal Article

**Proposition V: Joint Ventures and Co-Branding is supporting the brand equity of Chinese brands**

#	Article	Theme	Source of Info
1	Geely annual report 2010	Joint Venture and Co-Branding	
2	BYD annual report 2011	Joint Venture and Co-Branding	
3	<a href="http://www.businessinsider.com/a-chinese-london-taxi-2012-5?op=1#ixzz23iLxBzeo">http://www.businessinsider.com/a-chinese-london-taxi-2012-5?op=1#ixzz23iLxBzeo</a> , Retrieved on 16th August, 2012	Joint Venture and Co-Branding	
4	Wang. L., A Case Study of the Acquisition of Swedish Volvo by Chinese GEELY, Masters Thesis in Business Administration, MBA programme, BTH, School of Management.	Joint Venture and Co-Branding	Thesis
5	Tse, E., Russo, B., Ke, T., 2009, An inorganic approach to Globalization <i>The Marriage of GEELY &amp; Volvo</i> , Booz & Company Inc.	Joint Venture and Co-Branding	Business Review
6	Huihui, Z., 2012, China's Foreign Investment Analysis, Case Study of GEELY Acquired Volvo, Bachelor's Thesis in Business Administration, MBA programme, Savonia Business, Savonia University of Applied Sciences.	Joint Venture and Co-Branding	Thesis
7	<a href="http://www.businessinsider.com/a-chinese-london-taxi-2012-5?op=1#ixzz23iMRXidQ">http://www.businessinsider.com/a-chinese-london-taxi-2012-5?op=1#ixzz23iMRXidQ</a> , retrieved 18th August, 2012.	Joint Venture and Co-Branding	Online Business Magazine
8	Morcillo, E., April 15, 2010. HBR Blog Network, Geely's Volvo Gamble. Retrieved July 15th 2012.	Joint Venture and Co-Branding	Business Blog
9	Fea, Christian, February 18, 2009, 4 Powerful Joint Venture Advantages. Retrieved May 20 <sup>th</sup> , 2013.	Industry Structure	Online Business Article

10	Yu, Rose, & Wang Fanfan, & Zhang Yajun, <i>March 20, 2013. China Takes Aim at Foreign Car Makers. Retrieved May 20th, 2013.</i>	Industry Structure	Online Business Article
11	Young, Angelo, March 15 2013. GM, Ford, VW Dominate China's Auto Industry: Why Can't Chinese Companies Like SAIC, Dongfeng, Geely, And GAC Make Cars That People Want To Buy? <i>Retrieved May 20th, 2013.</i>	Joint Venture and Co-Branding	Online Business Article
12	Duncan, J. L., Jr., 1980. "The causes and effects of domestic joint ventures activity". Unpublished doctoral dissertation, University of Florida.	Joint Venture and Co-Branding	Doctoral Dissertation
13	Gullander, S. O. O., 1975. An exploratory study of inter-firm cooperation of Swedish firms'. Unpublished doctoral dissertation, Columbia University.	Joint Venture and Co-Branding	Doctoral Dissertation
14	Harrigan, K. R., 1985a. <i>Strategies for Joint Ventures</i> . Lexington Books, Lexington, MA.	Joint Venture and Co-Branding	Book
15	Harrigan, K. R., 1986. <i>Managing for Joint Venture Success</i> . Lexington Books, Lexington, MA.	Joint Venture and Co-Branding	Book
16	Pfeffer, J. and P. Nowak 1976. "Joint venture and interorganizational interdependence". <i>Administrative Science Quarterly</i> , 21 (3), 1976, pp. 398-418.	Joint Venture and Co-Branding	Business Review
17	Ferguson, R. W., Jr. 1981. The nature of joint venture in the American manufacturing sector. Unpublished Ph.D. dissertation. Harvard University.	Joint Venture and Co-Branding	Doctoral Dissertation
18	Harrigan, K. R., 1988. Joint ventures and competitive strategy. <i>Strategic Management Journal</i> , Volume 9, Issue 2(Mar. – Apr., 1988.	Joint Venture and Co-Branding	E-Journal Article

19	Brewer, T. L. and Nollen, S. D. (1998). 'Knowledge Transfer to Developing Countries after WTO: Theory and Practice in Information Technology in India'. Report to the Carnegie Bosch Institute, Working Paper 98-14.	Industry Structure	Report
20	Martinsons, M. G. and Tseng, C.-S. (1999). 'Technology transfer to China'. In Kelley, L. and Luo, Y. (Eds), China 2000, Emerging Business Issues. Thousand Oaks, CA: Sage, 189–215.	Industry Structure, Joint Venture and Co-Branding	E-Journal Article
21	Beamish, P. W. (1993). 'The characteristics of joint ventures in the Peoples' Republic of China'. Journal of International Marketing, 1, 2, 29–48.	Joint Venture and Co-Branding	E-Journal Article
22	Zhao, Zheng, Anand, Jaideep, and Mitchell Will Mitchell, (2005). A Dual Networks Perspective on Inter-Organizational Transfer of R&D Capabilities: International Joint Ventures in the Chinese Automotive Industry. Journal of Management Studies 42:1 January 2005.	Industry Structure, Joint Venture and Co-Branding	E-Journal Article
23	Rui, Huaichuan, S., George (2008). Foreign acquisitions by Chinese firms: A strategic intent perspective. Journal of World Business 43 (2008) 213–226	Joint Venture and Co-Branding	E-Journal Article
24	Rao, A. R., and R. W. Ruekert (1994), "Brand Alliances as signals of Product Quality" Sloan Management Review, Fall, 87-97.	Joint Venture and Co-Branding	E-Journal Article
25	Siminon, B. L., and J.A. Ruth (1998), "Is A Company Known by the Company it Keeps? Assessing The Spillover Effects of Brand Alliances on Consumer Brand Attitudes", Journal of marketing research 35 (1): 30-42.	Joint Venture and Co-Branding	E-Journal Article

**Proposition VI: Perceived Value is supporting the brand equity of Chinese brands**

#	Article	Theme	Source of Info
1	Dodds, W.B., Monroe, K.B., & Grewal, D. (1991, August). Effect of price, brand, and store information on buyers' product evaluation. <i>Journal of Marketing Research</i> , 28, 307-319.	Perceived Value of Branding	E-Journal Article
2	Deng, H. & Ma, A. 2010, "Market Structure and Pricing Strategy of China Automobile Industry, The Journal of Industrial Economics, vol. 58, no. 4, pp. 818-845.	Segmentation and Positioning	E-Journal Article
3	Gadiesh, O., Leung, P. & Vestring, T. 2007, "The Battle for China Good-Enough Market", Harvard Business Review, vol. 85, no. 9, pp. 80-89.	Perceived Value of Branding	Business Review
4	Zeithaml, V. (1988) Consumer perception of price, quality and the value. A mean-end and synthesis of evidence. <i>Journal of Marketing</i> , 52(2),2-22.	Perceived Value of Branding	E-Journal Article
5	Oliver RL. (1997) Satisfaction: A Behavioral Perspective on the Consumer. New York: McGraw-Hill.	Segmentation and Positioning	E-Journal Article
6	Anselmsson, J., Johansson, U. and Persson N. (2007) Understanding price premium for grocery products: a conceptual model of customer-based brand equity. <i>Journal of Product &amp; Brand Management</i> 16(6): 401–414.	Segmentation and Positioning	E-Journal Article
7	Blattberg, Robert C. and Kenneth J. Winniewski. 1989. "Price-Induced Patterns of Competition." <i>Marketing Science</i> 8 (Fall): 291-309.	Perceived Value of Branding	E-Journal Article

8	Dodds, William B., Kent B. Monroe, and Dhruv Grewal. 1991. "Effects of Price, Brand, and Store Information on Buyers' Product Evaluation." <i>Journal of Marketing Research</i> 28 (August): 307-319.	Perceived Value of Branding	E-Journal Article
9	Kamakura, Wagner A. and Gary J. Russell. 1993. "Measuring Brand Value With Scanner Data." <i>International Journal of Research in Marketing</i> 10 (March): 9-21.	Perceived Value of Branding	E-Journal Article
10	Milgrom, Paul and John Roberts. 1986. "Price and Advertising Signals of Product Quality." <i>Journal of Political Economy</i> 55 (August): 10-25.	Perceived Value of Branding	E-Journal Article
11	Olson, Jerry C. 1977. "Price as an Informational Cue: Effects on Product Evaluations." In <i>Consumer and Industrial Buying Behavior</i> . Eds. Arch Woodside, Jagdish N. Sheth, and Peter D. Bennett. New York: Elsevier, 267-286.	Perceived Value of Branding	E-Journal Article
12	Rao, Akshay R. and Kent B. Monroe. 1989. "The Effect of Price, Brand Name, and Store Name on Buyers' Perceptions of Product Quality: An Integrated Review." <i>Journal of Marketing Research</i> 26 (August): 351-357.	Perceived Value of Branding	E-Journal Article
13	Thaler, Richard. 1985. "Mental Accounting and Consumer Choice." <i>Marketing Science</i> 4 (Summer): 199-214.	Perceived Value of Branding	E-Journal Article

## **Appendix 7: External Researcher Biography**

1. **Family name:** El Safty
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3. **Date of birth:** 9 March 1980
4. **Nationality:** Egyptian
5. **Civil status:** Married
6. **Contacts:** Mobile +20100-255-1223

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Nermeen El Safty received her Bachelor Degree of Economics at Cairo University in 2001, and her Master of Business Administration at Maastricht School of Management. Nermeen currently works as Senior Staff Consultant at Integrated Marketing Solutions. Nermeen has been with the firm since June 2008. Practical experience covers developing marketing and branding strategies and integrated marketing communication plans, managing advertising and promotional programs, designing, analyzing, presenting and managing marketing research.

Nermeen has broad knowledge in managing different business to business accounts to achieve brand equity, establish brand positioning, and manage retail services in both consumer and industrial sectors. Sectors experience includes Real Estate, Pharmaceutical, Fast Moving Consumer Goods, Furniture, Agriculture, and Manufacturing.

Nermeen started off her career in the field of training; developing training manuals, designing sales scripts and conducting sales training through case studies and role plays at Commercial International Life Insurance (CIL) from 2001 till 2005. Then she joined the marketing department at CIL from 2005 till 2008 as Marketing Supervisor managing the Corporate brand, developing and executing the communication plan of the family of brands, conducting research for new product development and competitor analysis.